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WHAT HAPPENED TO EUROPE

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WHAT HAPPENED TO EUROPE

BY

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THIS book is dedicated to my six children, with the hope that they, and their generation, will grow up possessed of an abundant sympathy with their fellows, and a sufficient knowledge of economic law, to enable them to make a liberal and wise contribution of service to society.

PREFACE

THERE was never a more unpremeditated book. We landed in England February 2, 1919, intending to take a hurried glance at financial conditions in London and on the Continent and be back in New York by the first of April. Almost within a few hours, I found that I had known practically nothing of what had happened to Europe. The process of learning proved so fascinating, there was such wealth of opportunity on every hand, that we cancelled sailing engagements on one boat after another while we traveled through France, Switzerland, Italy, Spain, Belgium and Holland. At last we sailed homeward, leaving Southampton May 10th, 1919, on the S.S. *Olympic*. Up to the time we waved good-by at the Southampton docks, I had had no remote intention of writing a book about European affairs.

Sitting down in quiet with the strange prospect of five days of leisure after three months of intense activity during which I had visited seven countries and had received impressions from interviews with hundreds of people of importance, representing at

least fifteen countries, for the first time it came over me how much there was to tell about conditions as I had seen them in Europe. I shrank from the prospect of going over the story hastily with various people who might be eager to get, in a word, my impressions of our new world. There was such a rush of observations and, indeed, not a few conclusions which seemed to me important, that the thought of trying to tell the story in the brief snatches of conversation that I might hope to have with men at home who ought to have the full advantage of all the views they can obtain, made the attempt seem hopeless. And so it happened that while I had not once had the idea of trying to write anything for the public at the time when my observations were being made, I reached a sudden determination to attempt to put them into a book. Knowing only too well my poverty in leisure hours after I was once back in New York, and recognizing if the book were written my motto would have to be "Do it now," I started on the task.

From title page to finis, every line was dictated in the five days between Southampton and Halifax. And so it should be taken for what it is — a quick review following an extremely interesting experience in observing a state of affairs so novel that the whole world's history has nothing comparable to offer. In

no sense was the trip planned with the idea of making a formal, exhaustive study of European conditions. Hardly a note was made, as would have been the case had there been in mind the possibility of writing about the experience. I do not write this preface as an apology, for I do not want what follows to be taken so seriously that an apology would be necessary either for what is said or for what is left unsaid. It is rather the sort of a talk I might give to a friend who cared for my impressions and if there were the opportunity to converse at sufficient length.

I am quite aware that a good many Americans have been in Europe during the same period that these observations were made who may not have seen the situation as I saw it. I can perfectly understand how one might have traveled the same rather extensive route that I followed, and have concluded the journey gratified at the normal appearance of life everywhere outside of the war zone. Fields are being plowed, grain is being sowed and there is the same rolling beauty of landscape with the same lovely rivers and picturesque villages that we have seen in former years from train or automobile in France. Switzerland presents the same neat and carefully garnished fields and dooryards in its agricultural regions that has always marked it, and its hills are unchanging. Italy is still the most beautiful place in all the world,

and viewed from a motor along still perfect mountain roads or seen in the aspect of the mediævalism of the old hill towns, it seems the Italy we have known before. Spain is more prosperous in its obvious aspects than has probably been the case in a century. No one with open eyes could have escaped the horrid marks of war in Belgium, but in Holland the cattle, though in decreased numbers, grazed placidly as usual and the great tracts of tulips, at the moment in the height of their bloom, made one feel that the world had not lost its love for flowers and beauty.

It is easy to understand how a traveler, seeing these almost normal externals, might conclude that, with the signing of peace, Europe was almost ready to resume its old life in the old way and, given time to heal the visible wounds of war along the battle-front, would again be the Europe we used to know. And so if there are returning travelers who have not seen what has impressed me, I shall not be surprised nor will I have any fault to find if they describe a Europe exhibiting little change from pre-war days.

I have reached what to me are some startling conclusions. They are set forth in what follows with such fullness as was possible within the limits of the time. If they were only my own conclusions, there are some of them that I should doubt myself. It is hard to believe, when one sees what is outwardly a

perfectly normal country with its people quietly moving about, apparently fed and clothed to a normal standard, that there may be impending a catastrophe for such people — a catastrophe that they themselves do not dream of at the moment, a catastrophe that may be marching with the grim certainty that marks tragedy. But this catastrophe may be averted if statesmen are wise enough and if America is wise enough; for America is the last hope of Europe.

America must be brought to understand what has happened to Europe and be filled with sympathy but not with sympathy alone, for charity alone cannot save Europe. America must understand how her own fortunes — her own future — are bound up with the fate of European civilization and that European civilization is confronted with extreme dangers. Without America's help, the catastrophe cannot be averted, I believe,— but by America's help I do not mean America's charity. If once we grasp the full import of what the war has brought to Europe, at once we see what vast responsibilities and opportunities the war has brought to us. I believe we will place ourselves at the service of Europe as a whole nation just as we threw our whole national strength into the task of saving Europe and the world from military domination. Europe is now to be saved from a financial and industrial breakdown. There

are possibilities of a cataclysm in the situation and time will move very rapidly. I believe much of the disaster can be averted but that can only be done if America understands.

I have said that I might doubt my own conclusions if I had reached them independently; certainly I would not venture to put them forth on a printed page if they were but my own conclusions. They are, in fact, the essence of the information gained in a great many interviews. In what follows I have directly quoted no one. It would be unfair to do that because in no case did I have a conversation when I had in mind at the time publishing anything regarding it, and certainly the people with whom I talked could not have expected that I was interviewing them for publication. Nevertheless, I think it is fair to the readers of this book that they should know something of the sources of my information because that may help them to put a value on my conclusions and therefore I propose to give a list of some of the men with whom I have had full opportunity for a serious interchange of views.

I met the Finance Ministers of all the Governments I visited except Holland. I also met the Finance Ministers or financial representatives of Czecho-Slovakia, Jugo-Slavonia, Rumania, Greece, Lithuania and Poland.

With Mr. Austin Chamberlain, it was the renewal of an acquaintance beginning some years ago. Like all finance ministers, he has a staggering load upon his shoulders but I found no man in England who did not speak with words of high respect of his integrity of mind, of his honest purposes and of his fine character. Monsieur Delacroix, Finance Minister of Belgium, is also Prime Minister. My impression of him is that he is a statesman in the true sense of the word, well trained, high minded, capable. I met Monsieur Klotz, Finance Minister of France. Signor Stringer, the new Finance Minister of Italy, had been an acquaintance for eighteen years. He is a trained banker, having been, I do not know how much longer than that period, the head of the National Bank of Italy. He knows the technique of finance and he has a problem that will fully test his large abilities. In England, I met Sir Robert Horne, Minister of Labor, and Sir David Shackleton, Permanent Secretary to the Minister of Labor, who in the Labor Movement is familiarly known as "Honest David" and who is regarded by the present Government as one of the finest assets that the civil service possesses. In my whole European experience, I met no one who looked facts more squarely in the face than did Sir Auckland Geddes, Minister of Reconstruction, who is soon to give up public life to take the head

of a Canadian university. I had an interesting talk with the Right Honorable George H. Roberts, who, since 1917, was Minister of Labor until he accepted from the present Government the portfolio of Minister of Food.

Among the labor people, I talked with Mr. J. H. Thomas, M. P., the General Secretary of the National Union of Railway Workmen, who represents a union of more than 500,000 workers. He is a statesman as well as a labor leader. He has twice been offered cabinet positions and it would not surprise me if some day he headed a labor cabinet. I talked also with Mr. A. Taylor in the absence of Mr. W. A. Appleton, the head of the General Federation of Trade Unions. Mr. Taylor is next to Mr. Appleton at the head of an organization of over half a million. I found him one of the most patriotic, most moderate and most sensible of men and I felt at the end of an hour as if I had been listening to an elevating sermon. If there are many such labor leaders in England and if they can lead their followers, I have little fear of how far the labor movement there will travel. The Right Honorable Arthur Henderson and Professor G. B. H. Cole represented the more radical view of the men who are not at one with the present social order but even they had a moderation of utterance and such a tentative character of program as

partially to disarm fears as to where they might lead an active minority.

I met the two active heads of the Government's employment administration — Mr. J. W. Philips in charge of Unemployment Insurance of the Labor Exchange, who is disbursing a million and a quarter pounds a week to the unemployed, and Commander J. B. Adams, R. N. R., General Manager of the Employment Exchange which is placing in positions 6,000 men a day. Commander Adams has had the interesting experience of accompanying Sir Ernest Shackleton to the South Pole.

Among other British statesmen with whom I discussed conditions were Lord Milner, Lord Leverhulme (notable as a great employer of labor advocating a six-hour day), Lord Revelstoke and Lord Faringdon. Among the financial people in the city, I discussed conditions with Sir Brien Cokayne, Governor of the Bank of England, and Montague Norman, Deputy Governor, Sir Edward Holden, Sir Felix Schuster, Lord Inchcape, Sir Charles Addis, Sir Robert Kindersley, head of the National War Savings movement, Sir Robert Vassar-Smith and Mr. Henry Bell.

I had the pleasure of dining with the financial editors of London: Mr. Hugh Chisholm (*The Times*), Mr. A. W. Kiddy (*Morning Post*), Mr. Ellis T. Powell (*Financial News*), Mr. R. J. Barrett (*Finan-*

cier), Mr. H. Oakley (*Daily Express*), Mr. Walter W. Wall (*Daily Chronicle*), Mr. F. W. Hirst (*Common Sense*), Mr. E. R. Macdermott (*Railway News*) and including the master of lucid exposition in economics, Hartley Withers.

In France, I saw various members of the present Government as well as M. Briand who, many think, will succeed M. Clemenceau in due course, and I had several conversations with one of the ablest of French statesmen, M. Raoul Peret, President of the Budget Committee of the Chamber. Of course, in Paris one sees now the whole world, and so besides French officials and many French financiers, I met the premiers of all the new small nations, among them my old friend, Mr. Paderewski, and a most attractive new one, Mr. E. C. Venizelos of Greece. Here, too, were many important men from England, Italy and the Scandinavian countries and I had the opportunity of comparing notes with some of our own distinguished citizens, including Colonel House, General Pershing, General Bliss, Mr. Baruch, Vance McCormick, Thomas Lamont and H. P. Davison.

Without wanting to make any invidious comparisons, I cannot refrain from saying that of all the men I met in Europe I obtained the greatest amount of information, the broadest, most statesman-like views, the finest analysis of social conditions from

another American citizen, Herbert C. Hoover. I have known Mr. Hoover for some years but it was not until I had some long, undisturbed talks with him in Paris that I fully appreciated what an able man he is.

This list is already growing too long and I wish to make it only as an indication of my sources of information. I cannot refrain, however, from adding a few more names. In Italy, there are two that stand out with great prominence, Dr. Pio Pirelli, and Comm. Pio Perrone, the head of the Ansaldo Company. Their story is told elsewhere in this book. Nor in Spain must I neglect to mention a delightful hour spent with His Majesty Alphonso XIII. There, too, I also met the premier, Count Romanones, and other members of the Government, and perhaps one of the best economic minds I met anywhere in Europe, Ex-Minister Baldomero Argente. Nor, indeed, must I omit the mention of another hour with the King of Montenegro in Paris and several long talks with Dr. G. Vissering, President of the National Bank of the Netherlands, a strong, able figure in the financial life of Holland. I also had talks with leading Belgian, Swedish and Norwegian bankers and financiers.

I had the privilege of comparing notes with our own Ambassador to Great Britain, Mr. Davis, our

Ambassador to Italy, Mr. Thomas Nelson Page, our Ambassador to Spain, Mr. Willard, our Minister to Belgium, Mr. Brand Whitlock, our Minister to Switzerland, Mr. Stovall, our Minister to Holland, Mr. Garrett, all of whom I have to thank for extreme courtesy in inviting me to meet distinguished people and in aiding me in every way.

The list could be much extended. I do not, of course, profess that all of these people would agree with all of my conclusions, but I think I can fairly say that not a single statement is made in this book, or a single conclusion drawn, that could not be supported by some among the distinguished company who have been so courteous to me.

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WHAT HAPPENED TO EUROPE

CHAPTER I

PARALYZED INDUSTRY

I WENT abroad to learn at first hand something of what the war had done to the finances of Europe. I had gone but a short way in that investigation before I perceived that there was something far more fundamental and important to investigate than finances.

Perhaps nothing worse than national bankruptcy, with its attendant results can happen to a people. I believe, however, that something more far-reaching and more disastrous than mere bankruptcy has happened to a number of European nations.

The most profoundly significant thing that I sensed in Europe is the disorganization and paralysis of industrial production. The paralysis is not confined to the war zone. It extends to the industries of the neutral countries. So long as it continues, there is danger of revolutionary development and of Bolshevik tendencies. Wherever unrest develops into

Bolshevism, that new name for an old disease, anarchy, there is danger of contagion, and the disease is liable to spread to adjacent territory. This makes it necessary to regard Europe as a unit in any forecast of future conditions, for no government is strongly enough fortified against the inroads of this microbe of social contagion to permit its future to be regarded as safe when its neighbors develop this type of revolution.

It is not my purpose to write any description of the war front or any detailed account of what has happened to industry in the devastated districts. I motored as the guest of the American, French, and Belgian governments, throughout the whole battle front from the German border to Zeebrugge. It is idle to attempt to picture that trip to any one who has not seen what the desolation of war really means. There is a scar across France and Belgium along which devastation is complete,— villages that are just dust heaps, cities in which not a building remains, acres of land permanently despoiled so far as agricultural use is concerned.

I rode for many miles along roads which had been lined with magnificent avenues of trees seventy-five or one hundred years old. These had all been felled, and not because the wood was needed. For over two years they lay where the skillful German axe and saw

had put them — destroyed apparently in a frenzy of destruction.

I saw broad orchards every tree in which had been sawed off close to the ground, and they still lay there as they first fell in pitiful rows, although no military engagement had taken place in the vicinity to give semblance of a military reason for the act. I saw great factories in the occupied district of Belgium that had been operating on German supplies up to a few days before the armistice and which were outside the range of active military operations, which were systematically and completely destroyed, chimneys toppled over, bombs placed in every boiler, and machinery wholly wrecked. If I were writing a book on the war, I would devote a chapter to telling about the systematic destruction of industry for solely commercial purposes; how factories were selected that were competitive to German industry and ruthlessly destroyed, while others which were standing near by and which were non-competitive were left unharmed.

In a sense, Germany has won one of her objects. She has destroyed the industry of northern France and much of the industry of Belgium, so that no matter how great or in what form indemnity is secured, these industries cannot be replaced before similar German industries, and the industries of other countries, may have absorbed their markets.

In picturing the devastating effect of war on European industry, however, one must not confine the view to the Hindenburg line. There were great industries in Poland completely destroyed. In East Poland there is a tract of land two hundred miles broad and four hundred miles long where the Russian armies decided so to devastate the country that the German armies could not follow them. There the houses were of wood, and all were burned. The Russian army endeavored to evacuate the country of the whole population, and the population started toward Russia in advance of the retreating Russian army. The retreating Russian army traveled faster than the refugees and marched through them. Then the pursuing German army pressed on and marched over these people. They were left without food, clothing, or shelter. Four hundred thousand starved. To-day that great territory, the size of Kansas, is barren and without means of sustaining life. The industry of Warsaw was systematically sacked, as was that of most cities on the eastern front.

As one moves further south the situation becomes little better. Few cities in Europe have had to endure a more terrible fate of starvation than Prague. In Hungary, Bolshevism has done what Militarism failed to do. In Rumania, a purely agri-

cultural country, there were left almost no cattle or farm machinery. Both in Poland and in Rumania not over one-third of the fields will be planted this year. Rumania is one of the great sources of grain exports to other countries of Europe. Her exportation prior to the war was 100,000,000 bushels, including wheat, barley, rye, oats, corn and millet. The Premier of Rumania told me that under the best of crop conditions Rumania would be able to raise this year only a sufficient amount of food for her own population. Serbia was utterly despoiled. There is choice irony in her railroad statistics. After the armistice there were nine locomotives in Serbia.

This horrible story of destruction, however, I speak of only to minimize its extent by comparison. Vast as has been the field of destruction, these devastated areas are but scars on the face of Europe, and in the main the great intricate, complicated industrial machine of Europe was stimulated and expanded by this war which was so truly a war of industries. If it were possible to show the exact percentage of the industrial life of Europe which has been sacrificed with shell, bomb, and incendiary torch, it would be seen that the destruction, vast as it is, bears no overwhelming relation to the whole.

Why, therefore, should not these industries which have been unharmed be set going at a speed they

never knew before in order to meet the insistent demand that the illimitable needs of Europe may be expected to create? The fact is, that in the face of these illimitable needs the industry of all Europe stands paralyzed. What is it that has laid its hand on industry and at the moment when industry's products are needed as they were never before needed in the world has put out the fires, turned off the power, and left industry idle?

The answer cannot be made in a sentence. There is a tragic combination of difficulties that has brought this about. I will try to enumerate a few of these, and let any American manufacturer try to imagine his plant faced with such a series of difficulties and answer if he, too, would not have found them too great quickly to surmount. Let us pass by the case of these industries in the devastated districts. Obviously, their situation alone makes an early restoration of work quite out of the question. Let us take as an example an unharmed industrial plant in any place located in the interior of any one of several countries. We must first recollect that domestic transportation is broken down. This is substantially true of all Europe. It is literally true in many districts, but even where the service is best, days and weeks are consumed in moving freight short distances.

Then the factory must have raw materials, and in most cases these materials must come from outside the country. Over great regions a military embargo still continues and raw material could not be shipped if it could be obtained. To obtain it, there must be arranged in many cases ocean transportation, and ocean tonnage is so scarce that ships sometimes make one-half their pre-war value out of receipts of a single round trip. But if tonnage can be secured and military embargoes do not interfere, there is then the difficulty of exchange and the practical impossibility of credit. All the continental nations are controlling imports with a strong hand because every ton of material that is bought outside of the country increases the difficulties of the government in handling the foreign exchange situation.

So the manufacturer must first obtain an import license, which is always a tedious process and frequently a difficult one. After he has permission to import raw material he must secure the foreign funds necessary to pay for it. Suppose he has done all this and has surmounted the difficulties of ocean and land transportation; he is then ready to start his mill. It may be, if it is located in Italy, for example, that he can get no coal. In any event, the price of coal and the difficulty of getting it regularly, together with the difficulty of

transporting it in sufficient quantities, will be a serious handicap.

Then comes the labor situation, and although every manufacturer is surrounded by idleness, in few cases is his labor market favorable. If his product is one that requires special skilled labor he finds that his former labor force has drifted away and is difficult to replace. Always the increased cost of living and the idea which is universal, that labor shall have in the future a larger share in the profits of production, makes his new wage scale somewhere from two to three times his pre-war scale, while all over Europe the demand for a shorter day is adding, at least in the opinion of many manufacturers, to the labor cost of production.

But now suppose that the manufacturer has surmounted all these difficulties and has actually started the production of his product. There then comes the difficulty of his market. He again faces the obstacle of broken-down transportation. If his market had previously been in the Balkans, the Near East, or countries along the Eastern Front, the transportation problem is at present unsolvable. The difficulties, even of transportation of mail, are unbelievably great, and bad as the mail service is, it is frequently speedier than the telegraph. This is no extravagant figure of speech; it is a plain state-

ment of conditions that are so widespread as to be typical.

But suppose the manufacturer has at last produced his goods and has got in touch with his prospective customers. If these customers are in Spain, France, Holland, or the Scandinavian countries, they probably have means to pay for what they want to buy. If the customers are elsewhere in Europe the credit questions involved will be extremely serious; and so far as Poland, Lithuania, Rumania, and the Balkan countries are concerned, nothing but credits will complete the transaction. The credits asked are not short. They are too large and too long for any manufacturer to undertake to carry himself. They are not of a character which permits them to be handled as banking transactions. And so there is going on a chaotic scramble of the representatives of all these small countries to create credits in any form which will pay for goods they so urgently need. Thus we see a situation where the need of goods is practically without limit, but the difficulties surrounding their production and marketing are so great that up to the present time there is a condition of idleness unprecedented in industrial history.

The picture that has been drawn of the difficulties that manufacturers are facing may seem to be extravagant and overdrawn. Not all manufacturers

face all these difficulties, but the picture is not extravagant or overdrawn if taken as a general indication of the state of industry in Europe to-day. The great obstacles are the difficulties of obtaining credits to purchase in foreign markets, the inability to get ocean tonnage, the breakdown of domestic transportation, labor unrest, and throughout the great war area the destruction of machinery. Machinery, raw materials, and railroad equipment are the main things that Europe needs and must have to restart the industrial processes. To secure these it is necessary to obtain in the aggregate vast foreign credits.

I believe there can be no secure peace until the way is found to supply these credits to all industrial centers. It will not do to pick out only those districts or those industries which may seem to offer the best security, for there will be security nowhere as long as there are, here and there, plague centers in which idleness, lack of production, disorganized transportation, want and hunger make a breeding ground for the Bolshevik microbe.

CHAPTER II

TRANSPORTATION

If there were nothing else the matter with Europe except the breakdown of railway transportation, most of the European nations would still be facing a problem of gigantic proportions, the early settlement of which is not only essential to the resumption of industrial life, but is actually essential to maintaining life itself in some of the large centers. Hundreds of thousands of people have starved to death in the last twelve months in Europe. I am not using figures as it is said Lloyd George does, merely as adjectives. There is competent authority for such a statement. This terrible catastrophe has only in part been caused by lack of food. In an important measure the disaster was directly traceable to the breakdown in transportation, to the physical inability to move stores of existing food into localities where people were dying of starvation. At one time there were a hundred unloaded cargoes of food in the harbor of Marseilles, held there because preceding cargoes were blocking the lines of transportation.

The railroads of Spain were, on the whole, in much better condition than I expected to find them. In France the system has wonderfully stood the test of the enormous movement which has been imposed upon it. But equipment is deficient, and much of it unbelievably ancient. Added to that is the ineffectual system of handling the traffic. One of our high military officers described the dispatching of a freight car, say from Brest to Paris, as comparable with dropping a letter in a mail box. Sometime, presumably, the car would arrive at its destination, but in the meantime there was no record of its whereabouts. No matter how important it was to have it reach its destination, no way existed to trace it, and it might get lost on a side track for a month. The situation in France or even in Belgium is by no means illustrative of the situation further east. It is true that in Belgium the Germans took up practically all double track, even on the principal main through lines and have left but a single track for all traffic. Literally hundreds of masonry bridges have been destroyed in Belgium and northern France. It is easy to say that all this damage can be readily repaired, and so it can in time. My point is that it has not been repaired and at the present moment the tremendous handicap resulting from an inability promptly to move freight would alone be an enor-

mously disorganizing factor to the industrial life of these countries.

As one goes further east, however, the transportation system is found to be far more seriously disorganized. It is true that there has now been established some through services that might be taken to indicate a return to normal railroading conditions. One can travel from Paris to Warsaw, or to Belgrade, Bucharest or Constantinople. When it comes to transporting freight through the whole district east and south of Germany and of old Austria-Hungary, the situation assumes serious aspects. Serbia was swept almost clean of all railway equipment. I was told that at the date of the armistice there were but nine locomotives left in Serbia. The situation is bad in Greece as well as in Rumania, Czecho-Slovakia, Poland and Lithuania. In Russia the locomotives seem to have been run until they ceased to function and then were deserted, little if any effort being made at repairs, and it is here that there are the most notable examples of starvation and ample food supplies not distantly separated.

I have the highest possible authority for the prediction that the food situation will be more serious in the spring and summer of 1920 than it has been this year, and indeed that it will be so serious that, taking into account the breakdown of transportation,

it will be impossible to prevent another horror of starvation even if the ports of Europe are amply supplied with food. I am not arguing that this whole situation cannot be readily put to rights, but I do say that no substantial start has yet been made to do so, that even no systematic plan has yet been developed, and that under the very best of conditions, the task is one that will consume a great deal of time. In the interval the transportation situation presents a most serious obstacle to the distribution of food and necessities, and makes doubly difficult the restarting of industry. Among all of Europe's needs, none is more poignant than the rehabilitation of her railroads.

Occasionally I had an interview that was so rich in material and that was given under such circumstances that I could make very brief running notes. I find in my notebook, which indeed is a lamentably scanty and scrappy one, the notes of an interview I have had with a man who has made a great success on two continents and knows thoroughly from personal experience the railroad conditions in America, England and in Europe, and who has rendered distinguished service throughout the war. My talk with him ranged over many subjects. Portions of the interview would logically fall in various chapters of this book, but perhaps it will be as interesting

and readable to try to give an outline of what he had to say without any attempt at logical arrangement.

"In France the railroad tariff is fixed by law. It is now admittedly too low, but there has been an indisposition materially to increase it, just as there has been an indisposition materially to increase taxes. The result is a sad deficiency in income and a serious decline in the physical condition of the rolling stock. The French railroads seem never to scrap rolling stock. I have seen a locomotive regularly running on a French railroad that bore the date 1857 on its nameplate. That locomotive would be in a museum in America. Its boiler tubes were all of copper. It is to-day in regular operation. The way in which France has conserved its old rolling stock makes me wonder if Americans have not gone mad on rebuilding railroads.

"Economical as is the management of the French lines, their income at the present too low rates is not sufficient to keep up properly their physical condition. The Allies have paid the Nord Railway three million pounds on account, and that is all that has kept the road going. The finances of all the French roads are bad.

"In France a tremendous amount will have to be spent to restore the railroads to a good physical condition. The problem is by no means insurmount-

able, but France will have to put up rates. Everything that a railroad buys has gone up and there must be an advance in the price of what it has to sell. If the French railroad managers would only introduce some kind of efficiency, if they would learn to do some things in the way they have seen them done under American and English direction, their position would be much easier. I think after the Americans and English have gone home the French will introduce a better system, but they dislike to do that under the eyes of the foreigners.

"In England an extraordinarily happy arrangement was made at the very outbreak of the war. The British Government took over 95 per cent. of the railroad lines, guaranteeing them the same net return as they made in 1913. The government allows the same amount to be spent on upkeep and charged to operating expenses as was spent in 1913, plus 20 per cent., the 20 per cent. being allowed to cover the increased cost of material and labor. There was so much difficulty in getting labor that one million pounds of this upkeep fund is unexpended.

"The passenger rates in England were increased 50 per cent., not so much to get additional revenue as to prevent travel. Freight rates were not materially raised. Much traffic that had formerly moved by water had to be moved by rail, and this made new

tariffs necessary and increased the business of the railroads. There was formed a Railroad Executive Committee, made up of eleven or twelve managers. The President of the Board of Trade was the nominal head, but he was not active. No conclusion was put into force without the unanimous consent of this Executive Committee. They were broad-minded in their attitude and did not hamper the government, and the result is that there has been built up no controversy between the government and the managers.

"In an unguarded moment, the Government promised the unions that it would sympathetically consider an eight hour day. With the armistice the unions immediately came forward and demanded an eight hour day at once. Lloyd George, Sir Albert Auckland, Stanley Geddes and Sir Herbert Walker all made promises before election that are now difficult to carry out. During the war hours ranged from ten to twelve a day, and sometimes there were cases of men working sixteen hours a day. An eight hour day would add £25,000,000 annually to the operating expenses. The present increase of wages over the pre-war total is £55,000,000, so that if an eight hour day is granted on top of the present wages, the operating costs for labor alone will be £80,000,000 more than prior to the war. Standard-

ization, coöperation and the operation of all the roads as one system will save about £15,000,000 per annum, leaving £55,000,000 to be met by increased rates. Railway economists agree that this cannot be done. It means doubling the expense. Winston Churchill before election promised nationalization. His unauthorized promise was not denied until after the election. Now England is to have a new Ministry of Ways and Transportation, but as yet no definite government policy has been announced.

"The English public is divided upon the subject of nationalization. The subject, however, is not so complicated as it is in America. The difference between the railroad situation in the United States and in England lies in the fact that there is no vindictiveness in England between the Government, the railways and labor. There has been no such acts in England as the taking away of private cars, or the reducing of salaries of managers. The English public always stands for fair-play. 'Is it cricket?' is a question ever in the minds of Englishmen. In America the policy of legislators and of the Interstate Commerce Commission has often been vindictive. England will probably be slow in making its final decision in regard to the railroads. It is the habit there to consider public questions carefully; but in the end it will be fairly considered

and the owners of railroad securities will be treated fairly.

"Personally, I think the government ought to get out of the railroad business. Political influences will always hamper its policy of management. I doubt if railroads can ever be publicly run successfully in a democracy, although perhaps they can in an autocracy.

"I have been spending some time in Belgium. You can discount somewhat the Belgian hard luck stories. The Belgian is inclined to exploit his misery. It is true that certain towns were wiped out, but all were not. Belgian agriculture is better than it was before the war. The Belgian children have been well-fed. Keep an eye on Belgium. Her industries may revive first in Europe, and she has great ability in the industrial field.

"Here in France industry is handicapped in many ways. The Frenchman is jealous and suspicious of his neighbors. He is an individualist and does not like to coöperate. The genius of the French is for small business. They do not want Americans or English to come in to do business in France. That policy is undoubtedly a mistake. They ought to welcome the energy and brains of outsiders who would help them to get going. There has been enough altruism and amateur charity in regard to France.

What France ought to do is to let capital and brains flow in and give vitality to her whole industrial life. She should do away with her restrictions. But, in fact, she has become more Chauvinistic than ever. Do not be deceived, however, by the possibility of recovery in France. France has been very sick, but there is nothing wrong with her constitution. Foreigners can do business in France, if they will only learn how to go about it. Americans particularly do not know how to deal with Frenchmen. Americans are too direct and too blunt. No Frenchman wants to talk business in the first interview, and much of the business of France is done by indirection. One must take time to find out where the lines lie and in direct contact never take a Frenchman too seriously. The field of industry in France would be difficult for an outsider, but in the field of finance there is unlimited opportunity.

"You ask what America should be doing in Europe. Europe is fairly crying for brains and capital. There are possibilities everywhere, and there are particular possibilities in some of the by-ways of Europe that capital does not think of. Portugal is one. Clear-sighted engineers with a business sense would find many opportunities in Portugal, and in Spain. There are great mineral resources there and an excellent climate.

"One of the old regions of the world, Mesopotamia, will be made to flourish like a green bay tree if a little capital and some brains would get hold of the situation and revive the irrigation system of ages ago. In the Balkans and in the East there are coal and oil to be developed. In Rumania there are mineral and agricultural possibilities. The Germans made no mistake in selecting the Near East as a place for investment. They organized banks there, and the banker did not take chances. He knew what he was about. There is a banking vacuum from the Adriatic east.

"If America will study these opportunities and will link imagination with an actual knowledge of existing conditions, she can, with her ways of dealing with things, make a new world out of these backward countries. The greatest export America could send to those countries would be men with a knowledge of construction, of finance and of management. These countries have had bad government so long that there is no impetus left in the native people and they have made no progress, in spite of having natural resources that would have supported great development. The course for America to follow is, first, to investigate, to prospect, then to construct, retaining an interest in the junior securities, and keeping the operation in their own hands. There is

an enormous field for profit to Americans and for service to these people."

There seems to me much sound suggestion in this interview, as well as informing discussion of the European railroad situation.

CHAPTER III

A CHAOS OF CURRENCIES

An important factor contributing to the present commercial disorganization of Europe is to be found in the situation of the currencies of the various nations. The chaos in the circulating medium is enough to make Europe seem like an economic madhouse. The very first days of the war saw experiments in currencies by the greatest countries which departed from all experience and disregarded in many cases all sound principles. England itself in the first days of the war had to resort to a fiat issue by the government. Gold which was the general medium of exchange aside from the Bank of England notes, disappeared from circulation overnight. The Bank of England had a rigidity in its circulation that permitted no elasticity, and the government was forced to begin the printing of fiat notes before suitable paper could be found or adequate plates engraved. To-day the amount of government notes outstanding in Great Britain amounts to more than one and a half billion dollars. Against this there is

held a special deposit of gold amounting to £28,500,000 or roughly $140,000,000. Theoretically the notes are redeemable in gold. Practically the holder of either these notes or the notes of the Bank of England would be so closely questioned in regard to the use he intended to make of the gold, if he demanded their redemption in gold, that their redemption quality is for the present a fiction. No one is permitted to export gold from England without a Government license, and that license in fact is not granted. A bank deposit in England is payable only in Bank of England notes or the Government currency notes, and as these notes will not be redeemed in gold on demand, the pound sterling has ceased to represent gold.

In France the sole national issue of circulating notes are those of the Bank of France. The outstanding issue of these notes of the Bank of France has gone up from about six billion francs before the war to over thirty-four billion, with the limit of authorization just raised to thirty-nine billion. The notes are at present irredeemable and all gold has disappeared from circulation.

It is well to stop a moment and translate these figures so that our minds can grasp their significance. The circulation of the Bank of France now amounts roundly to six and a half billion dollars. France

has a population of about 39,700,000. This gives an average amount of circulation per capita of roundly $166. Our own circulation is $5,863,288,000, or $54.64 per capita. France with its 39,700,000 of people and its area less than that of our South Atlantic States has three-quarters of a billion dollars more circulation than we have in the United States.

While the notes of the Bank of France are the only national circulation and the only legal tender, there has been issued by many of the towns of France through the local Chambers of Commerce, circulating notes of small denomination.

In Italy circulation consisted of notes of the three great banks of issue, the Bank of Italy, the Bank of Naples and the Bank of Sicily. Before the war the Italian note circulation was 1,730,100,000 lire. To-day it is 8,961,300,000 lire.

In Belgium the pre-war circulation consisted of the notes of the National Bank of Belgium. When the German Government came into Brussels they were not in a position to command a further issue by the National Bank, but they compelled the leading commercial bank, the Societe Generale, to put out an issue. The volume of this issue grew to large figures, but large as it was it was supplemented by issues by every town of importance in Belgium. I have seen a

collection of these issues of Belgian and French city currency which filled two large scrap books of perhaps a hundred pages each, each page of which was covered with an endless variety of notes. One of these, for which the ingenious and patriotic artist who designed it was subsequently lodged in a German jail, had on the back an outline sketch of a lion whose tongue protruded contemptuously. It was discovered by the German authorities after many of these were in circulation that the lion's body embraced an outline map of Belgium and the contemptuous tongue of the lion was that bit of Belgian territory that was strongly held by the Belgian troops throughout the war.

In addition to the Belgian notes there was a great flotation of German marks. When the German troops evacuated Belgium the Government faced the problem of withdrawing from circulation both German marks and the forced issue of the Societe Generale. It accomplished this by giving in exchange a certain amount of the notes of the National Bank of Belgium and the remainder in bonds of the national government. As a result of this exchange it holds now more than six billion marks of German currency, an amount normally equal to one billion two hundred million dollars.

France had a similar problem in Alsace and

Lorraine. With more patriotism than financial judgment France exchanged French bank notes for the marks at the rate of 1¼ francs for each mark. This cost France half a billion dollars, and she now holds a corresponding amount of marks.

The currency situation in Great Britain, France and Belgium was simplicity itself, however, compared with that in some of the nations on the Eastern Front. After the armistice Poland found itself poor in everything but currency. There were in circulation there huge amounts of Russian roubles issued under the old imperial régime, counterfeits issued by Germany, counterfeits issued by the Bolshevists, Kerensky roubles, Bolshevist roubles, German marks, Polish marks, representing a forced issue which Germany had compelled during her occupation, and perhaps of the least value of all, Austrian crowns. Here was a conglomeration of notes more intricate than anything Mr. Paderewski had ever tried to play. But he has made an attempt to straighten out the complication by issuing a new Polish currency and by taking in the forced Polish issue, returning half the notes stamped and retaining the other half against an issue of bonds, while the other currency issues are being exchanged on various terms for Polish obligations.

Serbia, Rumania, Czecho-Slovakia had almost as

complicated a currency situation and have made heroic attempts to reduce the circulation by calling in all existing issues, returning part of them stamped and issuing funded obligations of the state to represent the notes retired or carried in the state's treasury.

The Austrian note issue has become so complicated and the gold reserve so slight that the gold reserve represents three-eighths of one per cent. of the circulation.

Another currency complication that has added to the untold difficulties is found in the Bolshevik attempt to counterfeit successfully sterling, francs, pesetas, lire and marks. How far this has gone no one knows. Counterfeits of the circulating notes of the Bradford Bank, one of the few banks in England that has powers of issue left, aside from the Bank of England, have reached England. The Governor of the Bank of England has seen no counterfeits of the Bank of England note, but there is said to be a plentiful supply of them in Constantinople and throughout the Near East, where a greater confidence was shown in Bank of England notes than in any other form of paper currency; and the Bolshevists were ready to meet the demand.

This program of wholesale counterfeiting by the Bolshevists is a part of their political program. In

Bolshevist political economy there is no place for money. They found it was impossible to withdraw money from circulation in Russia and so they consciously set to work to make Russian money of no value by printing unlimited amounts not only of their own rouble issue, but of the Czar notes and the Kerensky roubles. The finest money printing establishment in the world, next to the Bureau of Engraving and Printing in Washington, was located at Petrograd. The Bolshevist propaganda in other nations required money, and so they set to work counterfeiting the notes of other nations with the double object in view of furnishing funds for the immediate use of Bolshevist propagandists in other countries, and for the deeper purpose of destroying confidence of other peoples in their own circulation by injecting perfectly executed counterfeits into the circulation of other countries. No one professes accurately to know how far this diabolical scheme has been successful. It is regrettable that in this connection the Bolshevists had the example of one of the Allies, who counterfeited the mark while the war was on and gave the counterfeit paper to German socialists to help their propaganda in Germany.

In normal times of peace the great varieties of currency circulating in Europe always tended to hamper the freedom of commercial operations. The

difficulties which flow in the train of the numerous and extremely complicated issues now in circulation make the currency situation on the continent a serious obstacle in the way of returning to a normal economic life.

CHAPTER IV

ENGLAND

England's industrial situation and outlook are enormously interesting to Americans. Since the birth of modern industrialism England has been predominant in the international industrial field. At no time prior to the war did she cease to make progress, although Germany, and the United States in later years, progressed on so much more rapid a scale that England's premier position was being endangered.

England's great industrial advantage lay in her coal and her workmen. Most of her raw material had to be imported. She could not feed herself, but with the genius of the English for industrial organization, the island was turned into one huge industrial settlement, and a national life has been built up which is as dependent upon a continuation of outside demand for products of English workshops, as would be the case with a New England mill town. There is a population too large to be fed by home supplies, that gains its living by passing raw materials through the workshops, and selling the product to foreign

countries for the means with which to buy food and more raw materials.

I think the picture of England that is in the mind of the average American manufacturer who is looking forward to international competition is that her industries have greatly benefited by the war. He has known English industry before the war as hampered in the introduction of the latest types of labor-saving machinery through a certain conservatism on the part of both employers and men, while the restrictive rules and agreements of union labor limited the output below the output per man in our own shops under similar circumstances. Our American manufacturers believe that the war has greatly improved the position of English industry through a forced awakening to the possibilities of labor-saving machinery, and through the relaxation of restrictive regulations imposed by unions. The general belief in America is, or at least was three months ago, that America will encounter more intelligent and more effective competition from British industry than has ever been the case before, and that while Great Britain faces some desperate needs, the very pressure of her difficulties would inspire her industry with a keener intelligence in its production, and more insistent pressure for output. On the whole, it was believed that the war would result in a great revival in British industry.

Now let us examine the facts in the light of events of the first six months following the armistice. Indeed, it is rather necessary to go back of that and look a little more deeply into the reason why England kept her industrial supremacy as well as she did. Compared with the United States she was handicapped by lack of raw material. That disadvantage was in a way compensated for by her ability to load steamers for both the incoming and the outgoing trip. Foodstuffs and raw material came in, more bulky it is true, than the manufactured goods that went out, but there was never a line of steamers, no matter whence they might come, to which England could not furnish something of a cargo outbound. Her outgoing bulk was increased by her great coal shipments, and so, on the whole, there was a fair balance in cargoes and much of her disadvantage in respect to domestic raw material was overcome. Still Germany was better placed as to raw material and had a greater genius for factory organization, and rapidly advanced in her relative position. America, rolling in a wealth of raw material, but with a wage scale two to three times as great as her European competitors, made her best progress in those types of production where labor cost was a comparatively small part of the completed value.

The struggle in the neutral markets, however, was

so keen that it bore on England with increasing severity. The obvious way to hold down cost, in the minds of most manufacturers, was to hold down wages. That was resisted by the most complete union labor organization in the world. Eighty-five per cent. of the industrial workers of Great Britain are said to be organized in unions, and the leadership has on the whole been of an extremely high order. It has in the main been studious leadership, in which men have recognized that there are immutable economic laws and have striven to understand them and conform to them. This was met by a good deal of blind toryism among the employers, although on that side there are examples of liberalism of thought and a depth of intelligence that I do not think can be matched in America.

On the whole the forces tending to keep down wages proved, for twenty years prior to the war, almost as strong as the forces tending to raise them, and the result has been during that period that with a somewhat increasing cost of living, the standard of living of the laborer has certainly not much advanced and I believe on the whole has retrograded. Whatever the statistics of index numbers may show, at least two great broad facts are evident. One of these is the deterioration in physique. It may seem strange to suggest a deterioration in English

manhood in the light of England's accomplishment during four and one-half years in battle. Certainly she is not a nation in physical decadence, for never has there been shown such bull-dog tenacity or greater physical courage. Nevertheless, a visit to the mill towns of the cotton spinning districts, for example, shows almost another race of people compared to the well-fed Englishmen we know in London, a race undersized, underfed, underdeveloped and undereducated. Lloyd George's famous utterance that you could not build an A-1 nation out of a C-3 population has sunk deep into the English mind. The statistics of physique which the military annals produce show that one-third of the male population of fighting age was unfit for military effort.

The other great outstanding fact indicating in British industry a wage scale insufficient for what is regarded as a minimum standard of living, is found in the great national housing problem. The brutal truth is that England's labor has been so underpaid during the last generation that it has been unable to keep a roof over its head, and to-day there is urgent need for homes for a million working men's families. This need is so great that the domestic situation of labor has become a national scandal, recognized by Parliament and employers, and one of the most important national movements in Eng-

land to-day is connected with the housing problem. There is a program working through national aid, toward the immediate building of five hundred thousand houses. It is admitted on every hand that the deterioration and crowding in houses has gone to a shocking point — has gone so far that nothing short of national aid can rescue English labor from an intolerable position.

I have gone into this situation rather fully because I believe it leads to a conclusion of enormous importance in ascertaining the future position of British industry in international competition. The differential that England has had in the last generation, compared with America, and I believe in some degree with Germany, has been the differential of a wage scale that averaged lower than the point at which the physical efficiency of labor could be maintained. In order successfully to compete in neutral markets British industry has made a red ink overdraft on the future, an overdraft on the physique of her citizens, an overdraft that has consumed her house facilities; that overdraft must now be made good, at the expense of the nation. At the direct expense of industry, a minimum wage must be paid, either voluntarily or such wage will be fixed by law. Pretty much all labor opinion is on the side of a legal enactment in regard to a minimum wage, and a considerable body

of employers has also reached the same conclusion.

This means that the differential which British industry has had is, for the most part, gone. There can be no more overdrafts on the future of this character. If there were not hope of getting increased efficiency in production, the outlook for British industry on this account alone would be dark, for with the differential of low wages lost, England's ability to compete, particularly with America, will be seriously handicapped.

The factors which I have been discussing have their roots in conditions which existed prior to the war.

There now comes another great factor, that for a time at least will be of tremendous importance to the British industrial situation. I have said that all England was a great workshop dependent upon outside markets to consume the products of her industries in order that a margin might be earned to enable her to buy food. The great customer of England was the continent of Europe, and English life has been organized in such a way that the market for her industrial products in Europe is essential, if she is to earn the margin that she requires to pay for her food imports from other countries. There has now come an almost inconceivable disorganization of her European market. In another chapter I have said something of continental industry, of the break-

down of the continental domestic transportation system, and of the chaos in currencies and credit. These disorganizing factors thrown into the nicely balanced commercial and industrial mechanism have made a wreck which, compared with any material injury directly caused by the war, makes the after-war hurt more serious than the direct harm of shell and bomb.

It is essential to the continuation of British industrial life that she regain her European market. That means that the demand in these markets must be made effective by giving buyers the credits that they must have to restart the commercial cycle. That cannot be effectively done until the industries of Europe are themselves restarted and idle hands put to work so that Europe may help itself back to a normal industrial life. There can be no permanent international trade unless both sides to the bargain have something to sell. Europe cannot buy from England unless Europe can produce something to sell to the nations outside of Europe. England's ability to regain European markets, therefore, hinges upon the restarting of European industry. Unless that can be speedily done and a Continental demand for English goods reëstablished, England's industrial condition becomes critical. Indeed, one of her responsible ministers told me that unless her European mar-

ket can be reëstablished the problem of the government will be to export five or six million English citizens to the colonies and elsewhere where they will be close to the food supply, because the English industrial machine is set up now on a basis that requires something like the whole demand from the Continental markets in order that enough may be earned to buy the food that the English must have to live.

Our own position in international industrial markets will be in large measure influenced by England's ability to continue successfully to compete in those markets.

There are other important factors affecting the future of English industry, some of which are imponderable, for they have to do with character and with the way men's minds operate. The time that was at my disposal to inquire into this important question of the attitude of mind of labor leaders, of employers and of government officials, was brief; but I encountered such marked courtesy on the part of the Government, which went to great trouble to arrange a series of interviews with Government ministers, union labor leaders, employers and others, that I was able to see many important leaders in a few days. In carrying out this program of interviews there was such complete coöperation, such

frank expressions of views, that I feel extraordinarily indebted to the officials who arranged the interviews and to the men who gave up their time to them. Some of these men traveled long distances to London at the request of the government to keep these appointments. It made me wonder if we at home would be as courteous under similar circumstances to an unofficial visitor of an inquiring turn of mind.

Among the people whom I met and who gave me ample time for a full discussion, were the Minister of Labor, Sir Robert Horne; the Minister of Reconstruction, Sir Auckland Geddes; the Minister of Food, the Right Honorable George H. Roberts; Lord Milner; Lord Leverhulme; Mr. Rowntree; the Right Honorable Arthur Henderson; Prof. G. D. H. Cole, representing the radical wing of the Labor Party; the Right Honorable J. H. Whitley, author of the so-called "Whitley System" of Industrial Councils; Mr. A. Taylor, of the Federated Trades Unions; Commander J. B. Adams, General Manager of the Employment Exchanges, and many others.

After three days fully given up to conversations with these men, I feel entitled to say something on the subject of the English attitude toward labor questions, even though one might smile at the assurance of doing that after so brief a study, were not the sources of information so distinguished.

I had had a fortnight of observation of labor conditions beginning the first of February. At that time strikes in the tube and on the district railway had paralyzed the transportation system of London. The streets were crowded with army lorries packed to capacity with standing passengers. Coal was so scarce that no fires were permitted in bedrooms and we suffered through a fortnight of intolerable fog and chill. The electric employees were threatening to cut off the current from London and it was momentarily expected that they would act, so every one was furnished with candles to be ready for the emergency. Strikes had become so turbulent in character that military tanks had been ordered to Glasgow and were ponderously patrolling the streets. Five hundred thousand men, represented by the railway and transportation workers' union, were threatening an immediate strike unless differences concerning hours were adjusted. The union that embraced the entire labor force engaged in coal mining had grown weary of waiting for an answer from the government, which is operating the mines, to its demand for a six-hour day at an increased daily wage. The temper at that date was uncompromising and hostile in the extreme. Among business and financial men I encountered but one opinion, and that was that England was in for such a fight with labor

as she had never known and the outcome was anything but clear and had in it possibilities of revolutionary import.

Returning to London on the first day of May I found the situation as completely changed as it would be possible to imagine. The great fundamental common sense of the English people had asserted itself. The intelligence of the working classes and the labor attitude of the government, the public and the employers, had united in at least a temporary solution, which apparently removes any immediate danger of a violent or revolutionary movement developing. During that period some substantial progress was made in actual adjustments of differences, but of much wider significance was the general atmosphere, not so much of mere concession, as of a common recognition on all sides of certain fundamental principles. This was accomplished in the face of, or perhaps because of, a rapidly growing army of unemployed which was increasing directly as the demobilization of the army proceeded. That army reached by May 1st a number in excess of a million, who were receiving weekly grants from the government of 29s per man, with additional grants for dependent children, and costing the government treasury above a million and a quarter pounds a week. This had already brought the total paid in unemployment tolls

since the armistice to above fifteen million pounds.

In the three months that had intervened since my earlier observations the strike on the tubes and the district railway had been settled by the granting of shorter hours. The difference with railway employees had been, for the time being, composed. The government partially meets the views of labor. A hurried inquiry into the conditions of the coal mining industry had presented an unanswerable case for the coal miners, and their hours were cut to seven, from pitmouth to pitmouth, with a promise of further reduction to six if that seemed feasible after some experience with the first reduction. Sporadic strikes in the engineering trades had been settled and an inquiry of the deepest significance was in progress bearing on the question of the nationalization of the coal mines. The inquiry, conducted on behalf of the miners, by Mr. Robert Smilie, the head of the miners' union, had partaken somewhat of the sporting character of a Pujo or Stanley inquiry, but it was striking at the very roots of the economic theory of property rights. Land owners whose title dated back to royal grants made in the 14th century were being distressingly grilled in public as to why a royal dispensation in the thirteen hundreds entitled them to levy tribute on every ton of coal to-day, when human beings who happened to be miners were left with a

division that gave them a share in the profits of an extremely profitable business which would not maintain a standard of living under present conditions.

I regretted that this examination did not bring out as it might the true reason why land titles should be protected. The reason is not because those titles were granted some centuries ago. It is because in the main it has been well demonstrated that it is better for society that land titles should be protected. Every communistic experiment in holding land has in the end led to deterioration of the land and to less efficient cultivation. It is not for the benefit of the individual land-holder that land should be protected. It is because the weight of evidence indicates that it is better for society itself. It must be admitted in the case of the English coal lands, however, that the action of the owners had certainly obscured this point.

The labor leaders with whom I talked impressed me profoundly. They were men who had come up from the ranks, but they were not agitators. They were patriotic Englishmen with a great love for their country and with hope for its future. Some of them were men with no great amount of culture, but with wide knowledge. They had an understanding of economics that could only have been obtained by men who recognized that these laws were of tran-

scendent importance and that the principles of action under which they led unions embracing half a million men must be formulated in accordance with sound economic principles or the leadership would go astray. In the main these leaders wanted no socialistic state and believed that the best future of English labor and of the British state lay in a maintenance of the present social order. Some of them, notably Mr. Arthur Henderson and Professor Cole, did not agree with this view and looked forward to an ultimate socialized state. But they presented their views with a saneness and moderation of program, which, to say the least, entitled them to a respectful hearing.

All agreed that the wing of the labor party which believed that it was desirable ultimately to overthrow the present order of the capitalistic state and to substitute for it a communistic society did not represent over ten to fifteen per cent. of the organized laborers, but it was agreed that this minority was led with great skill; that it understood the power of propaganda, while the more conservative majority was phlegmatic and lacked assertion. It was agreed, too, that while the radical minority was at present small, its ranks would be potentially increased if living conditions became more seriously difficult.

The great employers of labor whom I met were

probably representative of the most advanced and liberal thinking employers. Lord Leverhulme, for example, is the open advocate of a six-hour day, having reached that conclusion not because he believes labor will accomplish as much in six hours as in a longer working period, but he thinks industry must use its machinery to a greater advantage than keeping it employed for one-third of the twenty-four hours. He therefore concludes that two shifts of six hours a day present the ultimate solution.

I cannot but believe that there is still a great mass of Tory thought in the employing classes. It is certain that, broadly speaking, employers are thoroughly awake to the necessity for concessions to labor. There is an awakened consciousness of responsibility for unemployment. The industrial theory that labor is a commodity to be bought when wanted on the best terms that the bargain can be made, is disappearing. The idea that there should be a genuine minimum wage, varying with different localities and conditions, but applicable to every one, is gaining ground. Employers' minds are beginning to wonder if industry has not been shortsighted in leaving labor always in a state of apprehension in regard to the stability of its position and at least to question, if not fully to admit, that industry would gain in efficiency under a system of unemployment

insurance. The aspirations of labor for a larger voice in the management of industry is being listened to with attention, and on every hand there is recognition that in the future labor will have, and in justice should have, a larger division of profits of industry either in the form of profit sharing or, what seems more practical for the present at least, maximum wages above minimum standards. So far as the government officials are concerned, they seemed intelligently and keenly awake to the various questions involved in the labor problem, but like all governments, move slowly in positive action.

Perhaps the most significant thing that I got out of these interviews was the sense of a sort of dogged optimism in the minds of all classes and a belief in the power and intelligence of England and Englishmen, a more or less conscious impression, that they would work out eventually a relationship between labor and capital in which all apparent sacrifices that capital might have to make would be more than compensated for by the increased efficiency which would come from a body of satisfied workmen. Every one admits that the days prior to the war when industry was hampered by a chaotic network of union and labor restrictions on output have passed and will never return. There are instances current at the moment of blind restrictive rules being again imposed

by union labor, but I think those instances are sporadic and not indicative of labor's mind. If the hope which was clearly expressed by some employers that a satisfied body of workmen putting their brains into the job, will in the end produce on a scale which will make the present scale of production seem indicative of a period of the dark ages in industrialism — I say, if that hope is realized, the future of England's industry is brought beyond anything ever dreamed of.

CHAPTER V

FRANCE

FRANCE thrills one with admiration that there was in the world a nation of such superb valor, but one sighs if he studies the present position of that gallant nation. France never stopped to count the price in courage and manhood that she must pay, to defend herself from the Hun. There was never any reckoning as to what the future had in store. All things were possible to that patriotism which is unsurpassed. And no more did France count the financial cost. Indeed I think the French mind grows bewildered when the unit of a billion is reached. They call it a milliard and after you have annexed nine ciphers to a figure, the French mind no longer follows. It got to be all the same when the debt of France piled up to a hundred milliards and then two hundred, and when engagements were made that will take it far beyond that figure. It got to be like figures in astronomy that are so great that they are represented by conventional symbols.

With some capacity for adding two and two, the first thing that struck me in France was the disparity

between budget requirements and anything that taxation has yet yielded. I talked with ministers, legislators and bankers, but none of them shared my anxiety. All of them, in the month of February, still felt confident that the national financial position was to be made right by the payment of indemnity. They were hazy on how that indemnity was to be paid, in just what form the payments were to be made. But of one thing they were very certain; it would be a deadly danger to France if German industry were allowed to recover before French industry was on its feet, and France in the future be flooded with German goods.

A Dutch banker in talking with me one day threw up his hands in despair over the French mind. "They want to milk the cow and cut its throat at the same time," he said.

Cutting a cow's throat while you milk her interferes with that maternal quietude of mind which is conducive to a generous down-giving of milk. Whatever the French mind is, it is usually logical. It can be forgiven in this case, however, for utterly neglecting logic, for it must be remembered that triumphant as France stands, she is still in abject terror of the future, if that future holds a military Germany.

France's loss of man power is one of the obvious things. Six months after the armistice there were

women conductors upon the street cars; women working about the railroad yards; women everywhere in the fields.

France had a visible aspect of having been bled white. Men far along in the forties could be seen in soldier uniform and everywhere there seemed an actual shortage of human power. It is sad to remember that during the war the population of France, quite aside from all military losses, showed a decrease of eight hundred thousand,— eight hundred thousand more deaths than births.

I traversed the whole distance of the French front. The pathos of that devastated territory is beyond words — the all but homeless people camping in wrecked buildings with windows screened with paper. Patient peasants toiling northward with scanty furnishings for the home they hoped to return to, were poignant sights, when one had come fresh from the regions toward which they were going and knew that no roof stood in all the land.

But in trying to get some estimate of the future of France I wanted, so far as possible, to get the awful picture of the battle front out of my mind, and remember that south of that terrible scar still lies unharmed one of the most beautiful countries in all the world. The devastating hand of war has only blighted, after all, a comparatively small area, even

though that area held an important proportion of the total of all French industry. Still, facts must be looked in the face, although perhaps less than any other nation involved in the war has France been disposed so to look facts in the face. It must be remembered that her pre-war debt was about one hundred and sixty dollars per capita; that the balancing of her pre-war budget was difficult, and that no recent government had felt strong enough to carry out the pressing and necessary funding of her floating debt. To-day her bonded debt is about twenty-six billion dollars, or about six hundred and fifty dollars per capita; there are thirty-three billion francs of short term unfounded obligations. The Government owes the Bank of France twenty billions. If she makes the payments that she expects to make immediately in grants to families of her dead, to her wounded, and to aid in the rehabilitation of the devastated area, her total obligations will be about two hundred billion francs.

Her immediate necessity is to provide income for a budget that foots over twenty-three billions. Her income from taxation before the war was over three and one-half billions (1913) and, of course, a large area in which taxes were gathered then can contribute nothing to the national treasury for several years. Her new territory will, perhaps, compensate this loss.

The estimated national wealth of France before the war was four hundred billion francs. If the present wealth of France were to be calculated in a depreciated currency it might, without any increase over the true value before the war, reach a figure very much higher than four hundred billion. Conceivably the currency might depreciate so that the measure of the wealth would be so great in francs, that with a debt of, say two hundred fifty billion francs, it would be only one-third or one-fourth of the total national wealth instead of, as it now appears to be, five-eighths or three-fourths of the total national wealth. However, it must be remembered that inability to collect taxes from certain districts is equivalent to an increase in the total debt. To comment on what these figures mean would be brutal.

Let us pass by in silence the engagements of France to her own people. That is her affair. We may be sympathetic but we need not be critical. There is a phase, however, in which the outside world cannot but be deeply interested and, unpleasant as it is, one must refer to some of the salient facts of international balances. Before the war France was helped to meet that trade balance by a huge income from foreign securities owned by her people. These foreign securities included an investment of twenty billion francs in Russian government bonds; five billion

francs in Russian industries; five billion francs in Turkish obligations and a substantial amount in Greek and Balkan securities. Here was at least a billion and a half francs coming in annually in the form of interest payments and it was this income that balanced her international account. For a time the government took up from French investors the dishonored Russian coupons, but it has announced that it can do that no longer.

The depletion of her income from outside the nation is only half the story, however. Before the war French investors held all the obligations of their own government. To-day France owes England £434,490,000 and America $2,802,477,000. At the moderate rate of five per cent. she needs new exports amounting to $245,000,000 in value to meet that interest engagement alone. With her outside income decreased by a billion and a half francs, with a new obligation of $240,000,000 to meet the interest on her foreign indebtedness, and with her capacity for merchandise export cruelly depleted, the problem of balancing her international account is one that calls for the wisest financial minds that ever engaged themselves with a desperate cause.

By the time I returned to Paris after visiting Switzerland, Italy and Spain I found considerable change in the atmosphere. Men in authority were

beginning to realize something of the inexorable logic of the figures and to wonder what was to be done. With pathetic unanimity their mind turned toward America's assuming part of France's debt. It was not usually put so directly as that, but one could not talk to an important Frenchman for five minutes that he did not bring forward a plan, logical in construction, plausible in appearance, but always leading up to America's dividing with the Allies the war burden.

The government has borrowed over twenty-three billions of francs from the Bank of France. I was told that the great Paris banks had eighty per cent. of their fortfolios in government obligations.

France has not raised taxes as England and America have. The politicians fear the antipathy of the French towards increased taxes. Probably any government that attempts seriously to raise taxes will fall. The gap is so great between present income and the budget demands that it would need a truly heroic Finance Minister who will propose a tax scheme that will close that gap.

The great anchor of France, so far as its internal political safety is concerned, lies in the fact that there are six million landowners, and that the whole nation is made up of small investors. In some of the industrial centers, such as Lyons and St. Etienne

there is plenty of latent Bolshevism. There is, of course, an active socialist party, but France would not seem good soil in which to propagate the ideals of Bolshevik Communism.

CHAPTER VI

ITALY

When one comes to see the importance of looking at a nation in the light of its power of self-sustenance, he will distinguish sharply between domestic wealth and a national ability to command and pay for necessities of foreign origin. No matter how rich a nation may be within itself, if it is deficient in some essential that must be imported, it must also have some commodity of equal value that the world outside wants and will pay for. In attempting to gauge the future of the different European nations one must at the very beginning include an examination of the international commodity balances necessary to the life of each nation.

Take Italy, for example. She is wonderfully rich in man power, moderately well-to-do in agricultural resources. She has partly developed her great potential resources of water power, but she has not a pound of good native coal, little mineral of any kind, and none of the great staple raw materials. She raises silk which she unwinds from the cocoons onto the bobbins and spins into skeins, and then, in the

main, exports it to the looms of France and Switzerland, and formerly to Austria, to be woven.

It is absolutely essential to her life to import about a million tons of coal a month, all of her cotton, much of her wool and some of her food. She exports the lovely skeins of yellow silk; her looms convert American cotton with a great deal of skill into cheap fabrics for the Near East. She exports olive oil and a few special food products of small value in the aggregate, such as macaroni, cheese and a certain amount of wine. In the present stage of her industrial development she has, comparatively speaking, little to export and an absolutely insistent need for very considerable imports.

For many years, therefore, Italy's foreign trade has been out of balance. She could not sell the world goods equal in value to the amount of goods she must have from the world. She did have, however, two special and unusual sources of annual income. To tourists Italy has for centuries been "the garden spot of all the world." The loveliness of nature, the deep historical interest of the cities and the monumental remains of her wonderful history, the unequaled collection of the art treasures of all time, have for centuries made Italy the spending ground for the savings of tourists. The aggregate from that source reached very large figures in recent years,

figures so important that thrown into the scale pans along with her deficient exports they did much to correct the balance.

She had another important source of annual income, reaching indeed in recent years to upwards of a hundred million dollars, and that was the savings her emigrant sons sent home. This has been a constant and a growing fund which yearly contributed in an important degree toward equalizing the international balance. For several years prior to the war, and in spite of a deficient volume of exports, Italy was able fully to balance her international account without making foreign loans, through the aid of these two great sources of annual income — the expenditure by tourists and the remittance from her emigrants.

The war has wholly changed this satisfactory position. During the war Italy incurred foreign obligations amounting to $3,100,000,000, the annual interest charge on which is say, $155,000,000. This alone would have thrown her international account severely out of balance and would have been extremely serious because she has no way by which it is feasible promptly to increase her exports. But the incurring of the foreign obligation with its annual interest requirements is only a part of her present difficulties. The embargo on travel all through the war and a

certain continuance of that embargo for a further year or two costs Italy in her international account not less than $200,000,000 a year, while her other source of annual income, the remittance from emigrants, has necessarily been greatly curtailed because of the return to the colors of a great number of her industrious sons. These emigrant remittances have continued in remarkable volume, but still there is a deficiency there from pre-war figures that is important in view of the extreme need for something to counter-balance the absolutely necessary payments that Italy must make abroad.

Two of her important exports, raw silk and cheap manufactured cotton goods, have had their market seriously interfered with. The markets for the raw silk were France, Austria, Germany and Switzerland. The market in the Central Powers was wholly cut off and in France badly disorganized.

The raising of the cocoon is an essential part of the agricultural industry of Italy. The cocoons are sold to the silk mills in June and throughout the rest of the year the mills are busy winding the half mile or more of fiber that each cocoon is said to contain into yellow skeins of raw silk that in the main go to foreign looms to be dyed and woven. The cocoons are paid for by the silk mills in June. The mills in turn receive their payment for the raw silk month by

month throughout the year. Here was where the fluctuation in exchange made a serious difficulty. The silk mills having paid for the cocoons a definite amount of lire found when they came to dispose of the raw silk some months later that the currencies were so depreciated that the raw silk could not be sold for enough to reimburse them for what they had paid for their cocoons.

In this trying situation the Government came to the rescue and made a fixed price at which it would buy raw silk. It was forced to do this; otherwise the silk mills, in the face of a wildly fluctuating exchange market, would have had no secure ground to stand upon in buying the next crop of cocoons and the whole silk-raising industry would have become disorganized in the very seat of production, the peasant homestead. Under the working of this arrangement the Italian Government has accumulated $75,000,000 worth of raw silk and has created a situation in the silk market which is perhaps economically unsound but humanly necessary. At least it was necessary in some way to keep the industry of silk production alive. The difficulties of the situation were so great that without government intervention the silk mills would not have taken the risk of purchasing a year's crop of cocoons with the hazards of a disorganized market and wildly-fluctuating ex-

change rate throughout the year during which they must dispose of the spun silk.

The production of cheap cotton fabrics for the Near East has also been disorganized. During the war it was not possible to produce them, nor would it have been possible to export them if the production could have been kept up. Now, there is an unlimited demand in the Near East, but it is not an effective demand because there is no means for payment. If Italy could secure the foreign credits with which to buy the raw cotton, she has the mills and the skilled hands to convert it into suitable fabrics for the Balkan countries, Asia Minor, and points further east. But she lacks the credit with which to buy the cotton, while these old markets in which she has shown much skill are closed because they too lack the credit with which to buy the goods which they so much need.

In recent years there has been developed in Northern Italy, particularly at Turin, Milan and Genoa, a number of great, efficient industrial organizations. The story of one of these is as splendid a romance of industrialism as will be found anywhere. There was one man in the industrial life of Italy who resisted the "peaceful penetration" of German capital. He had large industrial works in Genoa. There was ingrained in him a distrust of the Teuton, and as German capital penetrated to other industries he not

only resisted any advance made by that capital for an interest in his business but he instilled into his two sons what became almost a religion of chauvinism so far as this great establishment was concerned. When the father died the two sons, with a touch of Italian romanticism, stood at the bier and made a stern compact one with the other that they would never admit German capital into their great industrial inheritance. In these two men there certainly must have been some of the blood of the Cæsars, for they had an audacity, an imagination, a vision for great accomplishment such as the men who ruled early Rome must have had. Theirs was the one great industry in Genoa. They developed it in many directions. At the outbreak of the war it and various subsidiaries had become stock companies, the whole group being generally known as the Ansaldo Company, and it had great and varied industrial capacity, running through shipbuilding, the making of turbines, the construction of locomotives and the building of electrical machinery.

With Italy's entrance into the war these two men had the imagination to realize that the Great War was a war of industrial capacity. A speech which Kaiser Wilhelm made in which he told his own people that the war would be won in the workshops of Germany brought to them a revelation regarding the

character of the war, and they felt that they had in their hands, in the great industrial establishment that they controlled, an instrument essential to Italy if she were to play her part in the struggle which she had entered. Their clear-eyed view of German national characteristics, their hatred of German domination, made them see, as few men in Italy saw, what the struggle meant to Italy and what means must be employed if Italy was not to be vanquished.

They offered at once to turn their establishment into the making of large guns for the army. Perhaps, as they believed, there was German influence still in seats of power in the Italian Government. Perhaps there was only a lack of vision, but in any event they got no orders for guns. Lack of orders, however, did not daunt them. They believed they could see more clearly than the Government saw. They secured from Italy's Allies the designs of the most efficient French guns and without a single order from the Government and in the very first days of the war they started to convert their plant into an ordnance establishment. Before they received an order for a single gun they had completed 2,000 pieces of ordnance. Then came the Caperetto disaster. And not until that awful defeat did the Italian Government turn to them with cries for guns. When the first order was placed, the officials were confounded

on being told that the guns were ready for immediate delivery. These two thousand guns were at once put in the field to take the place of the vast losses which the Italian army had sustained, and performed a feat, in stopping the advance of the Austrians the value of which can hardly be measured. The Ansaldo Company could now get orders, but through some influence, or perhaps only through financial inability, they could not get pay. The orders were unceasing. The pay continued elusive. The great works, however, were operated to their utmost capacity, and performed a feat that those in America will marvel at, who know by experience the difficulties of ordnance production.

Works that employed one hundred thousand men were created and ten thousand guns were put in the field. At one time the Italian Government owed the Ansaldo organization 700,000,000 lire.

The matter of financing the situation required genius, daring and substantial strength. The capital of the company was increased to 500,000,000 lire and the public generously subscribed to the stock. A great combination of banks was created in order that the organization might control and be aided by a bank of great financial strength.

In a struggle balanced to such a nicety as was the Great War, when Paris was saved and perhaps the

whole cause saved by the opportune arrival of a handful of Americans at Château-Thierry, it can be justly said of each of many factors that the war could not have been won without this or that particular contribution. In that sense it seems to me it can truly be said that without the contribution of the Perroni Brothers and of their industrial organization of a hundred thousand men that they brought together in the Ansaldo works the Great War could not have been won. For Italy's cause would have been lost and with that loss might have come the downfall of the great cause. But now what of the future of this and other great industrial establishments that the war developed in Italy?

In many ways Italy struck me as being richer in human material than any other European country that I visited. These Northern Italians seem to have a genius for industrial organization. One of the great industrial plants of the world is the Fiat works at Turin; and there are a goodly number of well-planned, well-equipped industrial establishments in Northern Italy that have at hand an efficient, skilled and more than ample labor supply. But they must have coal and to get that must somehow, and at once, have the power to pay either in goods or in dollars or pounds sterling. It is not a matter of the individual credit of these industries. It is not at all

a question of the domestic wealth of these concerns. It is a question of Italian national position with respect to the international exchanges.

Italy as a national unit must be able to sell to the world a sufficient amount of her own products to pay for the coal, and the cotton, the wool, the petroleum products, the rubber and the other raw materials which she must have. If for the time being she cannot do that, and cannot make up the balance from emigrants' remittances and tourists' expenditures, she must have credits or her industries must in part close down. It all amounts to the inevitable logic of two plus two. There is no getting away from the few fundamental factors that are involved in international trade. To buy anything abroad Italy must sell her own products or make loans to counteract the lack of balance. If she cannot make those loans, things essential to her industrial life cannot be imported. Her industrial life must halt, production cease, workmen stand in idleness and face want. But that usually spells (whether the hungry man is an Italian, a Russian, an Englishman, or God forbid, an American, the result is apt to be the same), revolutionary outbreaks, a disorganization of the social order, industrial chaos.

CHAPTER VII

SPAIN

There is a corner of Europe, cut off by the Pyrennes from a mixture of race or close intercourse with other peoples, which has been wholly outside most of the baleful effects of the war, and which stands to-day in a unique situation, a position quite unlike that of any other European nation. For a century, Spain has lived her life much to herself. Her great world ambitions were long ago forgotten. The brief sway of Napoleonic influence made no lasting impress and gradually she has relinquished her unhappy grasp of far flung colonial possessions.

The Great War brought to Spain almost nothing but profit. She had an unlimited market at very high prices for everything that she could spare. She was outside the iron ring that closed in with crushing pressure on Holland and the Scandinavian countries at the same time that it shut in the Central Powers. The result has been an era of material prosperity such as has had no counterpart in Spanish history in the last century. With much to sell and comparatively little that it was possible for her

to buy because of lack of supplies and particularly because of lack of transportation for those supplies, she has been frugal in spite of herself, while the warring nations have poured into her lap golden treasure in exchange for what she could give them. The result is that there lie in the vaults of the Bank of Spain in Madrid great pyramids of bricks of gold and long rows of sacked sovereigns and eagles. There is now piled in that vault gold to a value of $440,000,000, more gold probably than Spain had within her boundaries even in the days when Spanish enterprise ventured forth to the Eldorado of the newly found western hemisphere.

In passing, it might be interesting to note that this great store of gold does not lie within doors of armor plate, guarded by time locks such as are commonly used to guard comparatively trifling reserves in many an American bank building. I was taken down to the bullion vaults of the Bank of Spain accompanied by four elderly guardians, each carrying a massive key. These four keys were simultaneously inserted through the ancient escutcheons and a door which would amuse some of my Sing Sing neighbors if they could note the ease with which they might, unaided by any keys, pass through it, was thrown open on a view of these piled masses of gold.

The period of prosperity which the War has

brought to Spain has already been long enough to stamp a visible impress upon the whole country. Fields have been brought into agricultural activity that had long lain fallow. One sees miles of new olive orchards planted with baby trees now two or three years old, interspersed between groves of olives, grown so old that their youth runs back to the time when Napoleon's ambitions for world domination were shattered.

More new building is going on in any one of half a dozen cities in Spain than elsewhere on the whole continent of Europe. Easily the finest hotel in Europe is in Madrid. Social life at the Spanish capital is more brilliant than at any other court in Europe. The shops of the cities contain everything for which there has been room on over-laden ocean tonnage to bring.

There are some fundamental defects that stand out sharply to any one making a study of Spanish conditions. Many of the problems that other nations have in part, at least, long ago solved are fresh and acute in Spain to-day. The Government in some particulars is bad and in many ways is inefficient. There still exists a privileged class of nobles, living for pleasure and blind to the responsibilities of their position. Great land holdings leave large sections of agricultural population little better than old time

serfs. The level of wages is the lowest wage scale existing in any country in Europe that I visited. The common laborer in the cities receives about 3½ pesetas a day, about seventy cents. The wages of agricultural laborers are still lower, while the industrial wage scale is such that grave industrial unrest is inevitable.

Spanish industry in the main is confined to Barcelona and Bilbao. Barcelona is historically turbulent. The Province of Catalonia of which Barcelona is the capital is inhabited by a race that has ethnological variation from the general Spanish type. These people speak a language of their own and think and act differently from the other people of Spain. Politically, Barcelona presents to Spain something of the same problem that Ireland does to Great Britain. Their aspiration is for at least a modified home rule and the answer of the Cortez to that invariably has been measures of stern repression.

So there is a political foundation for unrest in Catalonia that is not found in any other province, but there is also a social phenomenon there far more interesting and significant than anything that has its root in political differences. Barcelona is the great manufacturing center of Spain for almost everything except iron and a great percentage of its population is made up of wage-workers. The provincial

characteristics of the Catalonians, their independence, their disregard for authority, their progressiveness, have all found play in creating what to me was the most menacing, the most extraordinary, the most terrifying organization with which I have ever come in contact. This population of workers is dominated by Syndicalists and in Barcelona I learned for the first time what Syndicalism really is.

As there exemplified, Syndicalism proposes no compromise with the present order of society. It is Bolshevik in its aspirations and its methods. It refuses to accept the present capitalistic organization of society and is determined to overthrow the present social order completely in order that it may build a socialistic state on the ruins of the capitalistic state.

Its method of accomplishing this is through the agency of a Syndicate, an organization which might be described in one sense as a universal trade union, embracing the workers of all trades. Unlike a trade union, however, the directing force is shadowed in complete mystery. No one knows who directs the Syndicalist movement and when I say "no one," I mean almost literally that even; the workers who are members of the Syndicate know quite as little as do the outsiders. The organization partakes of the secrecy of the Molly Maguires and of the terrorism of

an Italian Mafia. Somewhere back in it there is presumably a head or a committee but who composes that directing force is kept a secret from even the active workers in the organization. The method of communication is all by groups of twos. Starting with the central organization, whatever it is, it is presumed that each member has direct relationship with two other members in the organization. In turn, each of these other members have direct contact with two additional members and so on in arithmetical progression. This series has been traced back by secret agents of the Government through fourteen different strata and still the real leaders have not been reached. General strikes are called merely as a sort of organization gymnastics, without any demands being made and with no one put forward with whom negotiation might be made to end the strike. Such a strike may last a day or a week and as suddenly and mysteriously as work stopped, it will be resumed. All this is done to impress the public and to train the organization.

One of the latest phases has been the censorship of newspapers. The newspapers were told they must submit all proofs before publication and that if they published anything unauthorized, they would be fined. Two papers were fined 5,000 pesetas each for printing official orders issued by the Government. If they

did not pay the fine so levied, they were told that their presses would be mysteriously destroyed. Even if they did pay the fine, as happened in one case, there still was no relinquishing of the severity of the censorship. The result was that every paper in Barcelona ceased publication and for fifteen days prior to the time I was there, not a single paper had been printed and the only news of the world which the town had came twenty-four hours old in the Madrid papers. Those papers, on the other hand, were Government censored, and as a news center, Barcelona did not present a brilliant front.

The essence of the Syndicalist methods as exhibited in Barcelona is assassination. Up to the time I was there, there had been 72 employers or industrial foremen mysteriously slain. Not a single conviction had followed this great number of murders. Usually, even no arrests were made. If they were, witnesses and juries were terrorized, judges were threatened and justice totally miscarried.

There was clear evidence that the Syndicate was receiving monetary aid from Russian Bolshevists and from German Socialists. The head of a great industrial organization, an American who had formerly been a resident in Mexico, told me that in Mexico he had known a German who was there a man of wealth and an organizer of enterprises, particularly of one

which for a time cut a large figure in New York speculative circles. My American friend discovered this German acquaintance in over-alls at work in a machine shop in Barcelona, obviously there for the sole purpose of disseminating German propaganda of unrest.

Five Russians had recently landed at Barcelona saying they had been shipwrecked and presenting every appearance of extreme poverty and distress. It was discovered that they had under their clothing a complete lining of Spanish pesetas. I was told the examination of a branch of a German bank located in Barcelona disclosed payments of 300,000 pesetas to the Syndicalist representatives and at the time I was there, the manager of this bank was presumed to be in Government custody.

The day after I left, the civil governor, obedient to threats of assassination within twelve hours, threw up his post and went to Madrid. One of the results was the fall of the Romanones Ministry. The day before that, I had had a long talk with the governor and he had impressed me as a man of great force of character, with sound, though perhaps not very liberal, views regarding social conditions.

Opposed to this mysterious organization of workmen, there is growing up what we would term a Vigilantes but what is called in Catalonia a Somatan.

This is now said to embrace 40,000 citizens who are banded together to fight the sort of domination the Syndicate stands for.

In Bilbao, the great industrial iron center, there has been no outward evidence of much progress in the sort of organization which has grown up in Barcelona. In some of the agricultural districts, the Syndicalists' program has been propagated and there have been some strikes timed for critical moments in the agricultural seasons. But on the whole the agricultural phase of the Syndicalist movement did not appear to be far enough advanced to cause much apprehension.

In all of Spain outside of Catalonia, there is an enormously potent influence for conservatism in the Church. Visiting a Spanish cathedral, compared with a visit to cathedrals in other countries, showed an interesting difference. The Spanish cathedral was in every case what might be termed an active, going concern. The deep hold which the Church has on the people could be seen here. Nowhere did the churches seem merely monuments to something in the past but rather the superb housing of a living, active, potent influence.

Europe nowhere presented a more interesting field than Spain, to watch the play of modern forces in their reaction upon old world conditions. Spain is a

store-house of natural riches. I have so often had travelers tell me that Spain was but a poverty-stricken country offering but the meagerest returns from a poor soil to a hard-working, ignorant peasant population. I cannot believe that such observers have seen the true facts and when one finds that there were cities of vast population in Roman days where now there are but villages, it is evident that the land and the mines yielded so amply that Spain might well have been looked upon, as it was, as the favorite post of tax gathering consuls.

I was told by authorities whom I am bound to believe that Spain has the richest undeveloped resources to be found anywhere in Europe; and it was obvious that better agricultural methods would further increase what is already a very large agricultural production. The conservatism of the Church on the one hand and the rapacity of the nobles on the other have held back the modernizing of Spain so that outside of the principal cities, one feels as if he had been transported back into the social atmosphere of a century or two ago.

Spain has been blessed with an intelligent monarch. Everywhere I heard good words said of Alphonso XIII. I had the interesting experience of an hour's conversation with him, a conversation hampered by no ceremonies of royal dignity. We talked over

Spanish and European conditions with the same freedom that one might have talked with any intelligent statesman or, I think I would rather say, with an intelligent business man, for His Majesty showed a knowledge of business conditions, indeed a technical grasp of questions of exchange and an understanding of the principles of foreign trade such as a good many statesmen would be quite innocent of. The King is immensely popular with the army but has to handle one of the most chaotic and turbulent complex of political parties to be found anywhere.

The fall of a ministry in Spain is but a summer's day event but now the process of forming coalition ministries has reached the limit of even Alphonso's astuteness. When Maura, who was called upon to form a ministry following the fall of the Romanones Government, was unable successfully to do this, a general election was ordered to be held early in June.

To-day Spain is not only rich in natural resources but rich in available liquid capital; but her capitalists are not adventurous. They do not care to take the chance of business or industrial investments, knowing perhaps too well the difficulties that enterprise must encounter with Government circles on one side and under-paid, dissatisfied labor on the other. There are in Spain the resources of people, of agriculture and of minerals to make the country blossom

with an era of great internal development and prosperity.

I have indicated a little of what some of the things are that will hamper such development. What the result of the reaction of these forces may be I would not attempt to guess, but of one thing I am certain. To the observer of social business conditions there is no more interesting field in Europe. It is worth while observing that friendliness on the part of the United States toward Spain will encounter striking friendliness in Spain toward America. All bitterness of '98 seems to have vanished and Spain looks to the United States with respect and admiration. It needs our capital less than any other country in Europe, but Spaniards are quite frank in saying they need our industrial leadership. Men of high character and broad capacity will find a congenial atmosphere in Spain if they go there to study on sound lines the great business opportunities that exist.

CHAPTER VIII

BELGIUM

Belgium is the most thickly populated country in Europe. Its low-lying fertile fields are cultivated like gardens, its country roads dotted with houses until they look like village streets, and over a large section of the country one is never out of sight of a village or a city.

The Germans did horrible material harm to Belgium, harm that went beyond all military necessity, some of it seemingly done in madness in the early days when Liége, Louvain and Dinant were destroyed. Toward the end of the war theirs was a destruction of Machiavellian cunning, a destruction designed purely to prevent what might be left of Belgian industries from coming into early competition with German production.

The harm that was done in Belgium was by no means entirely material; a harm was done to the moral fiber of her people. Four and a half years of life in a territory occupied by such an enemy, an enemy so ruthless in the early days of the war, was designed to strike terror into every Belgian heart.

Four and a half years under such occupation, with the whole normal industrial life disorganized, when the question of securing somehow one's daily bread was the paramount question, and the bread was not to be secured in the sweat of the brow but only by doles and distributions — when that situation has been borne by a people for so long a time, an impression of it will be left that no terms that could be written into an armistice will remove. So it is not surprising to find an abnormal social situation in Belgium. And still an observer who looked only at the surface of things would see well tilled fields, and cities presenting a normal external appearance. One could visit Brussels, Ghent, Bruges or Antwerp and be pardoned if he left Belgium convinced that the war had left no mark and the country was ready to go on with its national life from the point where it was interrupted in 1914. That being so, Americans must be warned against accepting reports of their countrymen indicating a normal state of affairs in Europe, even though a man may say he believes what he sees with his own eyes, and the things that his own eyes actually see are apparently normal occurrences of ordinary life.

Belgium has a population of 7,500,000. I do not know what statistics would give as the number of industrial workers prior to the war, but at a guess,

out of this population, the industrial workers would not have numbered much over one million. To-day the Government of Belgium is paying weekly unemployment doles to more than 800,000 workers. This is a fair indication of what has happened to one of the most industrious peoples in the world. But I do not think that this tells the whole story. Outside of the few cotton mills in Ghent, broadly speaking, one might say that the industry of Belgium has ceased. Furthermore the destruction has been so complete that it will be impossible to restart industry in anything like its full momentum for at least three years, if there were not a single financial or political obstacle in the way. Buildings in many cases must first be torn down that they may be rebuilt, for they are shattered beyond usefulness and encumber the ground. Machinery is in every state of wreckage. A very large part of it is either completely wrecked or has disappeared into German factories. Practically none of this stolen machinery is worth re-transporting for it has been none too carefully used, and by the time it is reinstalled it would be in such a condition that the factory equipped with it would be hopelessly handicapped from the first blowing of its whistle.

Prior to the war, Belgium, to an even greater degree than England, existed as a great factory com-

munity, importing most of its raw material, exporting great amounts of finished goods, and paying for imported food by the earnings of its industries. Belgian imports of foodstuffs had an average value of $200,000,000 per year during the years directly preceding the war. The same amount of food would probably now cost nearly double that sum in dollars, while the dollar which costs approximately five francs in the international exchanges of the normal pre-war days, now costs about six francs and a half. The future relation of the franc to the dollar no one would quite venture to predict. That relation marks the inability to balance import needs with export capacity. The future of the franc is not bright.

An easy optimism is apt to answer to this and to similar cases all over Europe — that it will all come right in time, that eventually the factories will be restored, the flow of exports resumed, that the consumptive demands of the people, for the time being curtailed, some temporary credits found to ease the immediate lack in the unbalanced foreign trade, and that in the end we will witness the remarkable power of recovery which an industrious people can show. There is a great deal in that view, and it is a hopeful and sane way of looking at the situation; but it leaves out one extremely important and essential consideration. A normal man needs three meals a day.

That need is immediate and he cannot wait for an adjustment which will come "in the long run." It is in the insistence of the human stomach that the possible tragedy to European civilization lies. The human stomach cannot wait.

People must be fed or they die, and the truth is they are dying, dying in some parts of Europe en masse. The figures which show the actual deaths from starvation would appall America, would shock her into awakening to America's responsibility if they could but be comprehended. Somehow distance dulls the significance of facts. We are told about whole regions starving, but the picture is so unreal viewed from our land of plenty that the horrible truth does not grip us. If agricultural America could but visualize agricultural Russia, a great grain producing nation which exported half the wheat that was shipped into Europe, now reduced to a point where several hundred thousand people are dying from starvation each month — my warrant for the figures is the greatest food authority in the world — then our people might begin to apprehend the fact that there is something of considerable significance the matter with Europe, something of such far-reaching and fundamental importance, that the whole fabric of European civilization is in danger. The disorganization of industry, of transportation and of production

has so thrown out of balance the intricate machinery of civilization that there is safety nowhere. Every community is depending upon another community, every country is depending upon another country, in this modern mechanism of life which has been so completely thrown out of gear.

Visualize any piece of great, modern machinery — an automobile taking a smooth road at thirty miles an hour, a printing press turning out the nicely folded sheets of a great daily paper at the rate of twenty-five papers per second, or an electric plant sending energy and power and light through a great city. Disconnect a single important mechanical feature and this whole mechanism ceases to function until the mal-adjustment is corrected. The automobile halts with a weary stretch of road ahead. All the cable and telegraph wires which have brought the essence of the world's news to the point of dissemination, for the moment become useless. A whole city can be thrown into darkness by an accident to a single lever on the switchboard. But how simple are these mechanisms compared with the mechanism of modern society, and how slight is the mechanical misplacement as compared to the wrecking of the essential features of the great industrial, commercial and financial machinery which was the life of modern Europe.

Coming back to the consideration of Belgium, I will again emphasize the harm which has been done to the moral fabric of her industrial population. For four and a half years they have lived a disorganized life of semi-idleness. We all know how hard it is to go back to the routine of work after a two weeks' vacation, but it is not easy to picture what happens to a whole people who for more than four years have lived an abnormal social existence. It has been said with a good deal of bitterness that there are Belgians who have lived so long on charity that they have ceased to care for work. Perhaps that is true, and so far as it is true it is in no wise surprising. The character of these people has borne a great strain, their normal lives have been disorganized for a distressingly long period. Some of them have come to look upon the Government treasury as a bottomless purse, and to think they have discovered by experience that legislative enactments rather than work can support a people.

It seems to me that the greatest injury that Belgium has suffered, and God knows the total list is an unparalleled one, is in the deterioration of the moral fiber of her common people. How quickly that can be rebuilt no one can say. The inherent desire to right wrong tendencies in humanity is unmeasurable.

For the moment the human problem is one of the greatest factors in the rehabilitation of Belgium.

The situation in Belgium is by no means all black, however. If by a brief contact with officials one may be permitted to make comparative estimates, I would say that the Government of Belgium is in strong, capable, patriotic hands. To the modesty, seriousness and ability of the Belgian monarch half the world has done tribute. The present Prime Minister and Minister of Finance, M. Delacroix, struck me as the peer of any continental statesman I met. M. Jaspar, Minister of Economic Affairs, is a man of deep understanding and patriotic determination, with a weariness in his tired eyes that tells of national service the personal cost of which was not counted.

Belgium has a further great asset in her business men. Some of them have gone far afield to create markets for Belgian industries. In times past the securities on the Belgian stock exchange indicated the investment of Belgian funds and the use of Belgian machinery and products in enterprises that are located around the world. It struck me that Belgium offered an opportunity for partnership with America that would be profitable to both partners; America to furnish capital, machinery and some supplementary mechanical methods, while Belgium furnished

a knowledge of international industrial affairs and practical experience in many foreign fields and a trained intelligence in international business with which we are but scantily supplied.

CHAPTER IX

THE INTERNATIONAL MARKETS

Commerce has to contend with a new factor with which it must cope—the fluctuation of the international exchange. The fluctuation of exchange, of course, is nothing new in itself; but when the value of the currency of one country measured in the currency of another goes through such a wide range as is experienced in recent years, the effect is felt throughout the business world of commerce. Since used to buyers of our money there has been a fluctuation during the war period in the value of the pound from $4.80 to $6.50, of the franc from 22½¢ to 17¢, of the lira from 25¢ to 11¢, of the peseta from 20¢ to 14¢, and of the gulden from 82½¢ to 39½¢, and all due to any exchange of the fluctuation of the mark, which has been from 23¢ to 17¢, and of the krona, which has been from 27½¢ to 26½¢.

Take a nation like Italy, for example, which must import many lots of coal that must be transported on ships in foreign bottoms, and which must provide foreign exchange to pay for all the raw materials, many of which is brought in from countries. A

fluctuation in the value of the lira, measured in dollars, becomes a matter that affects every peasant and every industrial worker. A fall in the value of the lira must immediately be reflected in the rising price of everything imported and indirectly in rising prices of domestically produced articles that have some relation to the cost of imports.

So the question of "The Exchange" has gone beyond the minds of bank employees who are accustomed to looking at the financial centers of the world as so many squares on a chess-board and transferring balances from this center to that with an infinitesimal shade of profit in the transaction. These were formerly the men chiefly interested in foreign exchange, and all that the public knew about fluctuation had to be learned from a little paragraph at the end of the financial article giving in fine type the leading quotations, never looked at by the ordinary reader. To-day "The Exchanges" affect the immediate conditions of the daily life of everybody in Europe who has to buy in some form commodities purchased in foreign countries.

In large measure the urgent demands of Europe to-day are for purchases to be made in America. To make these purchases the buyer must have dollar exchange. That is to say, he must be able to make the payment in current funds in the United States either

directly as an importer or indirectly by way of giving funds into the hands of the importer to pay for his importations. As the dollar rises in value because there is a demand for it not counter-balanced by a demand for pounds or francs or lire, there comes into the minds of the people who have not ordinarily dealt in the subject of exchange the feeling that the Americans are charging too much for their dollars. There is a lack of clearness of thinking surrounding the factors of this exchange problem that runs all the way from workmen to finance ministers, and more than one finance minister has spoken to me in complaining tones in regard to our greediness as exhibited in the high rate of dollar exchange. I have had finance ministers tell me that the American banks ought to get together in some way and supply dollars so that the exchange rate would not be so adverse to the harassed countries who want to buy our goods.

This attitude of mind looks no further into the subject than that of the man who found himself inconvenienced by extremes of weather, and inveighed against the thermometer. A thermometer measures the temperature. It does not create it, and stoking the furnace is obviously the thing that must be done rather than to spend time grumbling about the thermometer. Just so with the exchanges. The quota-

tion of exchange registers the direction and the extent by which the total importations and exportations of a country are out of balance. It is no more a matter that can be corrected by bankers, who happen to be the men who hold the visible gauge that marks the fluctuations of the exchanges, than the temperature could be regulated by some attempt to control the movements of the mercury in the bulb of the thermometer by other means than altering the general temperature that surrounds that instrument.

One might compare the foreign trade movement of a country to a set of balances. Put in one pan of the balance a weight representing the value of all the exports from a country. Put in the other pan a weight representing the value of all the imports into the country. Now if the scales are out of balance how can they be adjusted? The direction and the amount by which they are out of balance will be indicated by the pointer on the scale; but that pointer is not to blame if it points to a figure that means a serious handicap for those who wish to buy in foreign markets. The correction must be made by the weights in the balance pans. The ways in which these weights may be varied are few and they may be easily comprehended if one will but think of the fundamental factors involved. In the main the correc-

tion must be made by cutting down the weight representing imports or adding to the weight representing exports. When the deficiency of exports was slight, and the financial mechanism of the world normal, the correction was made by shipments of gold. The shipment of gold tended directly to correct the balance, first, from its own weight, but in a much more important measure, from its indirect effect. When gold was shipped out of a country interest rates tended to rise and prices to fall. The markets of that country became more favorable to buy in than to sell in, and the country's exports increased while its imports decreased. Thus the balance was brought back toward the normal. Now, however, we have a situation where that form of correction can not be applied or can only be applied in a comparatively small degree and in an ineffective way. What else can be done to adjust the weights in the pans so as to hold in check that tendency of exchange rates further to fluctuate from the normal? A nation that faces an imperative need for imports and that has, for the time being at least, an insufficient amount of exports to counter-balance its imports, may throw into the pan with its exports one other weight, the weight of its credit. If such a nation can make an external loan, the proceeds of that loan have the same effect in tending to bring back toward the normal the

exchange rate as would an amount of merchandise exports of the same value as the loan.

If the out-of-balance condition is only a temporary one that needs but the progress of a season to correct, then the loan may take the form of bank credits; and the function of international bank credits is usually that of correcting temporary out-of-balance conditions. But Europe faces a situation in which its demands for foreign goods must exceed its ability to supply merchandise for export for a good while to come, certainly for a longer period than it would be safe or wise or possible to create bank credits of sufficient volume to counter-balance the deficiency of exports. There must exist, therefore, for a considerable period a situation in which most of the countries of Europe must effect term loans in volume sufficient to make up the deficit between the utmost these countries can export and the minimum of imports upon which they can exist. These loans must have a term that takes them out of the category of bank credits and puts them in the form of investment securities.

Here then is one reason why America must become an investor in foreign securities. Such a result is an absolutely inevitable consequence of the situation in which Europe finds itself to-day. Certain imports of raw material Europe must have to

continue its normal life. For the time being Europe has little or no goods to offer in exchange for the essential raw material which must be had to start and feed her industries; and so she must fill into the pan of the scale along with her deficient exports additional weight representing foreign credits.

It seems to me that the foregoing indicates the true factors that influence foreign exchange. There is no legerdermain of finance of which I am aware that can change these fundamental factors, and anything that appears to change them will, I believe, upon analysis be found to fall within the principles that have been here suggested. We have had the phenomenon of "Pegged Exchange" which might seem to offer the ground for belief that there is some way of controlling the temperature by controlling the thermometer. For a long period the pound sterling was "pegged." That is to say, the price of dollars in the London market or the price of pounds in the New York market was from day to day the same and the quotation was "pegged" at a fixed figure through some power exercised by the British Government. What was that power? It was merely this in its ultimate analysis: The British Government stood prepared through its agents to buy all the exchange offered and to sell all the exchange demanded. It, in a measure, controlled the

amount of dollar exchange that its own traders demanded by limiting the imports of goods into England and thereby limiting the demand for dollars to pay for imported goods, but as the two pans of the scale were thrown out-of-balance by an excess of imports into England above the total value of her exports, she had to maintain the balance by creating government credits in dollars. This was done first by appealing to our investment market and later by contracting loans directly from our Government.

England's effort to "peg" exchange first resulted in the necessity of exporting to us $1,300,000,000 of gold. So that in the first instance the deficiency of commodity exports was made up by an export of gold. This export of gold had a double purpose: first, to pay a deficient balance, second, and quite as important a purpose, to flood our market with gold, keep down the interest rate and to make possible the subsequent borrowing that the English Government knew would have to be done in order to continue to keep the scales balanced and the price of sterling "pegged." When the flow of gold was exhausted Great Britain went to our investment market and secured about $1,500,000,000 of credit to throw into the deficient pan. Later, after war was declared by America, our Government made huge loans to the British Government, and these loans week by week

were dropped into the pan of the balance along with Great Britain's total exports in just sufficient amounts to hold the pointer on the scale at 4.76⅝, as the weight in the other pan was increased by her constantly growing imports.

That is the way the sterling rate was pegged. The rate was maintained at 4.76⅝ only because Great Britain continued to have borrowing ability sufficient to create a credit equal to balancing her deficiency of exports. The moment that borrowing ability shall cease or is not further exercised, any discrepancy between the total exports and total imports will make itself manifest through the pointer on the scale. That is to say, the rate will be no longer "pegged," but will fluctuate as the pans of the scale are put out-of-balance.

CHAPTER X

CREDIT

Credit is so delicate a thing that it is dangerous to talk about it. If a credit is to be weighed and analyzed, and the chance of its failing to be repaid appraised, the not unusual course of the conservative financier or investor is to say that he wants nothing to do with it.

There is not a credit in Europe to-day that does not need to be weighed and its chance of repayment carefully appraised, but it will not do for America to say that she will keep her dollars at home henceforth and get into no further entangling foreign financial alliances. One American financier in Europe summed up his view of the situation by saying that he would advise his partners henceforth to keep very close to shore. My reply was that keeping close to the shore might result in having a hole stove in his boat. America cannot keep close to the shore. We are launched, whether we like it or not, in the world's currents. We have moral responsibilities that should and will appeal to us; but if we only look at the situation on the narrowest of material grounds,

and look with clear vision, we will understand how involved is our civilization with the civilization of Europe, and we will comprehend what it will mean if by failing Europe in her hour of great need we permanently injure the fabric of civilization there.

The British Chancellor of the Exchequer looks forward to British taxpayers facing an annual budget, after the extraordinary expenses of demobilization have been met, of £766,000,000, which is £114,000,000 more than he can foresee as likely to come into the Treasury from the present rate of taxation. The cost of the war after demobilization will astound the world. From April 1, 1918, to the day of the armistice Great Britain's war expenditures were £7,442,000 per day. From the armistice to March 31, 1919, they have averaged £6,476,000 per day. From the armistice to April 1, 1919, England paid out £52,000,000 in gratuities to the members of the forces who were demobilized, and unemployment doles absorbed £13,000,000, that figure, of course, being since much increased, as it grows by one million and a quarter pounds a week.

England set an example in taxation to all nations. In the year ending April 1, 1919, 34½ per cent. of her total expenditures were provided by taxes, and for the five years of the war ending April 1, 1919,

28½ per cent. of the total war cost was provided from revenue.

At the outbreak of the war the British national debt was £645,000,000. On March 31, 1919, it was £7,435,000,000, of which £6,085,000,000 was internal and £1,350,000,000 external. The forecast for the year ending March 31, 1920, indicates an expenditure of £1,435,000,000, and a revenue of £1,-160,000,000 with a deficit to be met by borrowing of £275,000,000, although the Chancellor prefers to make a safer estimate and put the new loans necessary as totaling three hundred million pounds.

That does not measure the borrowing the Treasury faces, however. The floating debt on March 31st amounted to £1,412,000,000. Most of this is in three months Treasury Bills, and constant appeals to the market must be made to renew these floating obligations. On top of this are the national currency notes, demand obligations of the Government in the form of circulating notes which, on April 23, 1919, stood at £349,000,000, and were supported by a gold reserve of £28,500,000. Their amount is steadily rising. The aggregate amount of legal tender money of England, which at the beginning of the war was £214,000,000, is now more than £540,-000,000.

These figures take no account of the obligations

owed to England by her Allies and dominions. These obligations on March 31, 1919, amounted to £1,739,000,000.

As Mr. Chamberlain wisely observes, the hard, inexorable economic facts of Great Britain's financial position are obscured by a fictitious appearance of wealth. There is between two and three times as much legal tender money in circulation as there was before the war. The deposits of the joint stock banks have more than doubled. Almost all of their additional deposits are represented in their portfolios by short dated government securities. The average figures indicate that about 46 per cent. of British bank portfolios are in government obligations. The great French banks by comparison show about 80 per cent. of their portfolios in government paper.

I am not going to burden these pages with any statistical analysis of the financial position of the various governments. The position of every one of them that was directly involved in the war may be frankly accepted as critical. To England one might perhaps better apply the word "difficult" than "critical," but as for the rest, the position of the domestic bondholder gives promise of unpleasant eventualities either in the way of scaled obligations or depreciation of the currency in which the debt is

measured, or of such a direct tax as the voters of Switzerland have just imposed. M. Klotz, the Finance Minister of France, without, one fears, a clear economic understanding of the problem proposed a capital tax in France. The proposition met with such a roar of opposition that it was dropped almost as soon as it was proposed.

In the chapter on France, I have given some indication of the national financial burdens. In Italy the national debt is less, but its crushing weight is proportionately as great, particularly in view of Italy's comparative poverty in natural resources. When we turn our attention to Poland, Lithuania, Czecho-Slovakia, Jugo-Slavonia, and Greece, to say nothing of Germany, Austria and Turkey, the situation presented in each case is desperate. Just how desperate no one could measure, because to-day no one knows what is the debt of any of those countries. They have been made up by a re-drawing of national lines, but it was found easier to draw national lines, infinitely difficult as that task is, than it was to re-apportion to the new nations with a just allocation that part of the old debt of the nations from which the new countries have been made.

Anything like a discussion of the national finances of most of these new nations with a view to definite action is wholly impossible until the governments

which they have temporarily set up have been formally recognized by the great powers, and that recognition, up to the moment when this is written, has not been definitely given. Such nations as Poland, Lithuania and Czecho-Slovakia might conceivably go to their own nationals in America and raise a certain amount of credits without having the basis of those credits very closely scanned, but even that is impossible until the United States has officially recognized those governments. Rumania has a better foundation for national credit than the other smaller nations mentioned because her existing debt is not overwhelming and her resources in oil and agriculture are very great indeed. But even so, she is not at the moment in a position to command even a part of the credit that she vitally needs.

In any consideration of credits in Europe, whether they be national or individual, whether they be secured by claims upon the German indemnity as collateral or offered by corporations or individuals of wealth, they are all open to one vital objection. There is no political safety in Europe anywhere so long as there is left any country unable to command a sufficient amount of credit at least to make the beginning of an attempt to restart its idle industries. I have said elsewhere, but it cannot too often be repeated, or too clearly kept in mind, that paralyzed

industry, idle workmen, stoppage in the flow of manufactured things, and the want and hunger which must follow as a consequence, all of which is emphasized by the breakdown of domestic transportation, spell Bolshevism.

If the foregoing is a correct view, then Europe must be looked at as a unit and one must cease trying to find a nation here or there, or a loan of one character or another that in itself is thought to offer a fair basis of security. There cannot be security in an atmosphere where Bolshevism is contagious, and where an outbreak in one center is almost certain to be communicated to adjacent regions. Any attempt to grant credit facilities for the rehabilitation of Europe must, I believe, be so comprehensive in its character as to embrace at least a serious effort to restart the industrial cycle in all the European countries. I did not include Russia in that category because, for the time being, Russia is outside the pale of capitalistic consideration, for there is no government with which capital can contract. Bolshevist Russia must, for the present, be economically isolated as a patient too dangerously involved with contagion to permit any financial intercourse.

Are we then to give up the task as hopeless and mark the whole field as too dangerous for timid dollars to enter? My answer would be that under no

circumstances should we do that. It would be morally cowardly, and financially more dangerous than would be an intelligent attempt to grapple comprehensively with the whole problem.

How, then, shall we take hold of it? If we cannot let the usual principles of credit govern our financial decisions, if all Europe is so knit together that we must be guided by her necessities rather than by the security that individual countries can offer, how can we make a beginning?

In the first place, to put it frankly, Europe is in a situation where to my mind she must needs give receiver's certificates for the credit to get her going again. By receiver's certificates I mean national obligations having a prior lien upon the national income. It would perhaps be impossible to get any one of several nations to offer such security, if approached individually, but I believe if an identical formula were presented to each nation, and if all were alike asked for a prior lien, the difficulties of national pride would be more easily overcome.

I will not here go into the details of a plan which has been suggested to our own government and to leading European officials and financiers. Perhaps before these pages are printed that plan, or some modification of it, or some other plan that recognizes the principle of dealing with Europe as an entity

in the first instance of granting credit, will have been agreed to. In any case, events are traveling too fast to make the pages of a book a suitable place for such a current discussion. I will merely presume that some way is to be found to grant the first credits that are so vitally essential to provide each of these nations with a certain amount of machinery, raw material and railroad equipment to permit a beginning in the direction of restarting the industrial cycle, and I will pass to some consideration of what the next step may be.

Let no one think that Europe is lacking in a sound basis for obtaining all the credits that the lending nations can possibly extend, provided Europe gets fairly started back on a return to normal economic life. Not only is Europe enormously rich, but there is inherent in the present situation a power of rapid recovery, if the tangle can only be straightened out, which will set the continent in the direction of recovery. If industry is not promptly restarted the possibilities involved are too black to picture, but if all these nations can be faced in the right direction it would be possible to wipe out most of the scars of war in an amazingly short time.

If I read the situation aright, there is to be a new type of financial relationship. Europe lacks credit, but it has something that America lacks. It has ex-

perience and an understanding of international industrial business which goes, in many instances far beyond our own experience. It seems to me that this should be the best of grounds for a partnership in commercial and industrial affairs. We would bring to the partnership capital and a certain amount of imagination and vigor, while the Europeans would bring an industrial plant and a commercial organization thoroughly experienced in fields where we have not adventured.

The cotton mills of Italy give an outlook into the Near East, and I believe it would be greatly to the advantage of cotton interests ambitious to extend markets in that direction, to work with Italian cotton mill interests. The Italians have been extremely clever of late years in the production of cheap goods for the Near East. They have an abundance of labor. They lie on a route between our cotton fields and the ultimate market, and they know the market.

Belgium has done successful industrial engineering quite around the world. She has strong men with practical experience of construction and installation over the widest territory. They have a great number of plants of one sort and another operating in almost every important country, and they have many projects in hand that have been studied, some of which are ripe for execution. There could be a

partnership of American capital and industry formed with Belgian experience in industry which might play a great international rôle.

There is no more dreadful error to be made by America than narrowly to conclude that foreign trade means merely selling our products, and to close our minds to the idea of helping rehabilitate and making future markets for the product of European industry. Some may hold the opinion that a loan of credit to rehabilitate industry in Europe would be merely a loan to help our industrial competitors more quickly to get back to a position where they can outstrip us in competitive markets, and therefore we had best keep our credits at home and push our present commercial advantage. It seems to me that this conception is as seriously wrong as possible. Foreign trade is interchange, and distinctly not to be conceived of as merely selling by one country to other countries. As European industry is rehabilitated, and as surplus products are made that can be exchanged for the surplus products of other countries, the world will get back to something like a normal life.

For the moment, the world has no conception of how disorganized its affairs are as a result of this disorganization of European industry, because for the moment there are effective demands that pretty

well take up any slack there is in productive capacity anywhere. The credits will be quickly exhausted upon which much of the purchasing has been done in international markets in the first six months since the armistice, and the new credit may be slow of creation. For a time international trade must be moved by credits, because Europe is in no position to produce exportable surpluses of anything in appreciable amounts and therefore will not have normal amounts of goods to exchange for other goods until the industrial processes and the former reactions in demand of one industry upon another have been set in motion.

Of course, banking credits will ultimately come into the picture, but there are great misconceptions in the minds of government officials, of business men, and I would even venture to say in the minds of some bankers, as to the proper function of bank credit in such a situation as the present one. I have always felt that it was salutory to look at a bank, not as an inexhaustible fountain of credit, but rather as the greatest debtor in the commercial world. We are apt to speak of the resources of a bank instead of that exactly counter-balancing figure, its liabilities; and borrowers at least do not keep clearly in mind that the banks are the greatest borrowers of all, and that they owe all of their resources, except the mod-

est percentage that represents their capital; and, more than that, stand committed to the repayment of their debt on demand. All this means that wise bankers will not tie up in long term credits the funds that they owe to depositors on demand. The credit that represents goods in transit, raw material in process of manufacture, products moving directly into consumption is the ideal form of credit for bank loans. All credits that inherently have in them the power of self-liquidation, is the proper use for bank resources.

When a bank begins to loan against a commodity in transit, and further agrees to renew those loans for a period of a year or two after the commodity that formed the original basis of the loan has passed into consumption, the bank has engaged in financing rather than banking. If it takes on much of this character of business it is on dangerous ground. Personally, I believe one of the few serious errors, in disregard of the sound principles of banking, which the Federal Reserve Board has made, has been to permit the rediscounting of bills that have been drawn under agreements to renew. Such bills cease to have any self-liquidating character, after the goods against which they were drawn passed into consumption while the payment of the original bill is extended.

The rôle that American banks can play in the credit situation in Europe is of vast importance, and if they will hold firmly to the lines of sound commercial banking it is a rôle which they can play with security and profit. Never was there greater need, however, for a firm grip by bankers on the fundamental principles of sound banking. There will be presented most attractive opportunities to make bank loans under conditions and for terms that will take the loan out of the category of proper banking and put it into the form of financing. If bankers are firm in adhering to principles they will leave such loans to be worked out in other ways and will perform their true function by making loans that have within themselves the inherent power of self-liquidation.

I am quite aware that great and apparently successful systems of banking have been built up on the continent in apparent disregard of the principles which I have here been emphasizing. The German banks were deeply interested in German industry. The same is true in a measure of Italian banks to-day. In France too little encouragement has been given to industry by the banks and too much emphasis has been laid upon the profits made by floating securities. If some of the billions of French capital, which under the stimulation of banking

propaganda, found its way into Russian and Turkish loans, had been invested in French industry, the present position of France would be less unhappy. In England the sound traditions of commercial banking have been much more closely adhered to than on the continent, but England is now off the gold basis and her banks are encountering obstacles in the field of world-banking which seemed very difficult to surmount.

American bankers have an opportunity in the field of world-banking brilliant beyond any conception which they have heretofore had. If they will rise above the provincialism in which they have been trained and still hold firmly to the principles of sound commercial banking, the rôle which they will play in the future world of finance has no limit that I can see.

CHAPTER XI

"COMFORT AND LIBERTY"

THE motto of the chief Syndicalist organization of to-day, the Confédération Générale du Travail of France, consists of two words —"Comfort and Liberty." Here is the key to an understanding of the greatest problem of the age, the labor problem. If one will grasp in their significance what these two words connote in the mind of labor, he will have pretty much the whole story of labor's aspirations. By comfort is meant a larger share in the earnings of industry; by liberty is meant a less subordinate position in industrial surroundings and social status. It has been keenly observed that the aspirations embodied in these claims have been ripened by the war, which has quickened the consciousness of merit in the laboring classes.

A man who has had enormous experience during the war in handling the English labor situation, Sir Lynden Maccassey, sums up the essentials to peace in industry under the three headings of Contentment, Coöperation, and Production.

The factors on which contentment depends, he

says, are in their respective order of importance:

1. Security of employment.
2. A voice in fixing conditions of employment.
3. Remuneration and a fair division of profits.
4. Working hours.
5. Prevention of profiteering.
6. Housing.
7. Economic education.
8. Opportunity to rise.

The factors on which coöperation turn depend on:

1. Elimination of suspicion.
2. Creation of confidence between employer and employee.
3. Recognition of their mutual community of interest.
4. Machinery for facilitating coöperation.

The final factors upon which production primarily depends are:

1. Economic education.
2. Modernization of their methods by employers.
3. Repudiation by labor of limitation of output and of demarcation restrictions.

The significance in this catalog is the arrangement in respect to the order of importance of the different factors. Only preceded by the factor of the security of employment is the weight given to

having a voice in fixing the conditions of employment. That I believe is giving its just weight to this aspiration of labor. I found the situation the same in every labor community where I had the opportunity to observe conditions. There is a determination on the part of labor to have more to say about conditions of its job. No matter in what country one studies this all important matter he will find the wage question is subordinate to the question of the workers' status. There is a determination to have a larger share in the profits of industry, but there is even a stronger determination to see to it that society no longer regards labor as a mere commodity, and, instead of that, that society shall grant to labor, not as a concession but as a right, a voice in determining immediate industrial surroundings, rules and regulations under which labor will work.

There is to-day nothing short of chaos in European industry. One phase of it is manifest in the enormous unemployment encountered in every country except Spain. In England one million workers receive a million and a quarter pounds a week in "unemployment wages," and in addition England is subsidizing wheat by selling it for less than it cost, so that this form of contribution is costing the nation fifty million pounds per annum. The present unemployment figures it is thought are certain to in-

crease. In Belgium the percentage of unemployment is far more serious with 800,000 in that comparatively small community receiving "unemployment wages." The situation in France and Italy is little better. The effect on the industrial life of the nation of this system of unemployment doles would make in itself the basis of an illuminating study. No matter how serious consequences one may trace as likely to follow these vast national disbursements, it may as well be admitted on the start that they were absolutely necessary. If the war industry had ceased and armies had been demobilized to return to hunger and idleness, the foundation of the capitalistic order would have crumbled. There is perhaps a question as to the wisdom of paying the unemployed without exacting anything in return, although the difficulties of organizing any national work that would have absorbed this labor in a way that would not have been too obviously making a man perform a useless task, would have been it must be admitted very great.

In England the weekly unemployment dole is 29s to men and 25s to women, with an additional amount for each dependent child. This is a sum certainly none too large to maintain a self-respecting standard of living, although it is larger than were the wages for a full week's labor in many lines prior to

the war. It is admitted by every one that the system is being abused, that men are declining to work because they would rather loaf and draw the dole.

Under the rules of administering this unemployment fund, the Government must present to a man an opportunity to labor at his particular trade before it may cut off his claim to the unemployment gratuity. There is in England an extraordinary immobility of labor as between the various trades, and an extremely sharp line of demarcation in respect to which trade a certain kind of work falls. It naturally follows that there are many stories related of how men decline to work at this job or that because such job does not fall exactly within the defined limits of their particular trade, and the men sit idly consuming Government charity while useful tasks remain unperformed.

A man of very high position in the financial world of the city told me this story. A man had been in his employ as a gardener, but left that work to become a repairer of roads. Municipal economies stopped road repairing and the laborer began to draw his unemployment wage. Having a large family his weekly income from the Government amounted to 36s. My friend met his former employee and offered him 35s to resume work in his garden. This he hotly declined as he said he was receiving 36s for

doing nothing. My friend then appealed to the authorities and charged them with wasting the taxpayers' money, but they replied that this man was registered as a road repairer, and they were bound to find him a position as a road repairer and pay him unemployment wages until they succeeded.

This tale was told to me for the purpose of throwing light on the abuses that were going on under the unemployment act. As a matter of fact, while the story may be useful for the purpose intended, it is even more illuminating because of the light that it throws on the attitude of employers. A man of wealth owning an extensive country place and attempting to command the labor of a man who had a large family to support by offering him 35s a week with the present cost of living in England taken into account, was trying to get his gardening done at a wage that must have meant the barest subsistence to the worker. There are easily two points of view from which to regard the employee's refusal to give up his 36s a week of unemployment dole in order that he might earn in the sweat of his brow a wage below a point that would support his family at a minimum standard of existence.

Another difficulty that is encountered in the administration of the unemployment fund is met in the large number of women who were formerly in domes-

tic service, but who entered industry during the pressure for war production. They register as machinists or at least as skilled industrial hands; they decline again to accept domestic service, and the Government finds itself in the position of supporting them while the English mistress is in despair because of her inability to get servants.

The effect on moral character of these huge Government disbursements to the unemployed raises extremely serious considerations. There has been an awakening consciousness in regard to society's responsibility for unemployment and there is little likelihood of European industry returning to its prewar situation in which the lack of security for labor was always uppermost in labor's mind. The unemployment doles are in no sense regarded by their recipients as charity, but rather as a human right which should be one of the first charges on the public purse. Economic ignorance leads men to think that the public purse is bottomless, and that their Government, if not the world, owes them a living. They feel that they are not necessarily bound to do any work in order to collect the debt.

Employers generally admit the necessity and the justice of a national unemployment scheme, but they universally feel that the plan should be contributory, and that employers and employees and the nation

should each bear a part of the burden. There are some trade unionists who strongly object to a contributory system and even declare the present system is unjustly administered, their aspiration being for grants from the government in case of unemployment, the grants to be made direct to the labor unions and to be distributed by them.

It seemed to me that the most important thing for American employers to grasp is the significance attached by workingmen to bettering their social status in industry. At home I try never to miss an opportunity to gain enlightenment on the workmen's point of view, and I have been increasingly impressed with their desire for a larger voice in management. They do not want a voice either in the management or the responsibility of the business office, but they do want more to say about the immediate industrial conditions in which they work. I am thoroughly convinced that that aspiration is now world-wide and that America will feel the demand as strongly as it is now being felt in Europe. I believe it is a demand that American employers should heed, and that it should be met not merely by forced and grudging concessions but rather from the point of view which is now held by many English employers. It is declared that what the men want is to be treated as intelligent participators in industry, to be consulted and to have things

explained to them. It is a reasonable and logical claim, and employers themselves believe they will have to concede it.

English employers believe that production hinges on contentment, that contentment cannot be secured merely by wages, and that if labor is given a larger voice in the management of the purely industrial conditions of the shop, there will be not only a growth in contentment, but there will be a coöperative spirit in which men will bring their brains as well as their muscles to the task of production. They feel that from capital's point of view every such concession made will be far more than compensated in the increased production secured.

The war resulted in the relinquishment by union labor of many of its rules which have in a steadily increasing degree hampered industry. There is still a widespread economic fallacy in labor circles, however. Labor believes that a restriction of output is beneficial to the worker. The effect of that fallacy is again coming sharply into evidence. There is a widespread belief among workers that industry can be carried on with much shorter hours, that men may receive still higher pay for the shorter day, and that all this can be accomplished without any detriment to industry, purely as a result of a more just division of the profits of industry.

That view has certainly been upheld by the results of the Coal Inquiry in England. In the light of the facts brought out by that inquiry, there could have been no other decision than that labor was entitled to shorter hours and much higher pay. Of course, the condition is not parallel in other lines of industry, and there is probably grave danger in applying that view to those industries whose life is dependent upon ability to compete in neutral markets. Of course, a higher price for coal will affect England's ability to compete in all international lines of industry.

There is a tendency for labor to lose its faith in the efficacy of higher wages. Debased currency and deficient supplies have so steadily advanced the cost of living that higher wages have frequently brought no additional comforts of life. It is in this fact that there is the most dangerous ground for propagating dissatisfaction with the entire capitalistic order of society. Everywhere in Europe there is a substantial minority in the labor world ready for a revolution to establish a Communistic State. I have discussed this phase in the chapter on "The Power of Minorities."

Labor's position in Europe is going to be tremendously strengthened by the loss of man-power resulting from the casualties of war. These figures

reach an enormous total and have an immediate effect. But of still greater portent is the loss of population resulting from the decreased normal birth rate. A sound authority estimates that the belligerent countries are poorer by twelve million lives because of the separation of husbands and wives during the war.

A profound effect upon the character of the industrial skill of European labor has been produced by the war. The whole normal course of apprenticeship and training of young men has been interfered with. Not only have apprentices been withdrawn from shops to the colors, but the absorption of industry for five years in vast scale production where the amount of repetitive work in which no skill is required, except for a single operation, has been very large, has made these years in a measure, blank in the training they have given in all-round craftsmanship to the rising generation.

As against this loss of skill there have been substantial gains from the labor of women in industry. Women have been found in many cases surprisingly efficient. There is also the permanent gain so far as efficient and cheap production goes from the introduction of automatic machines whose use the conservative employer had been slow to rightly appraise, and whose introduction was steadily opposed before the war by labor.

I suppose the most significant thing in the whole European labor situation is the quickened consciousness in the minds of labor, which has come from the whole war experience, of labor's own power, and the keener comprehension of labor's claims in a democracy to a greater equality of opportunity and reward. The attitude of social classes throughout Europe has been profoundly affected by the democracy of the war experience. This experience has broken down many old class barriers. That fact is startlingly exemplified, not alone in the new demands of labor, but in universally a more liberal attitude by employers. Nowhere in Europe is there any longer any substantial resistance on the part of employers to an eight hour day.

Perhaps there is no single mental effect of the war that is more significant than the changed attitude of European employers to the whole labor question. There is a disposition to examine the very fundamentals of labor's dissatisfaction and to accept as not only necessary, but probably as desirable, a quite new status of the workers, particularly in relation to giving them a really effective voice in the management of industry.

This does not mean any tendency toward anarchy in industry. A larger voice in industrial management on the part of labor is not translated either

by labor or employers to mean a voice that extends to commercial policy. More than anything else it seems to me to mean that labor shall be taken into the confidence of employers, shall be informed in regard to aims, advised with in respect to difficulties, listened to when it wishes to make suggestions in regard to shop practice, and conferred with about shop conditions, and particularly about shop foremen. In a word, labor wants to be led instead of driven, and it wants its leaders so to take it into their confidence that labor will have some intelligent view of the task to be accomplished.

All this may sound very revolutionary to an employer who has counted labor costs as he has counted the cost of copper or steel or cotton. There has been a great awakening in Europe, however, to the difference between buying the raw material commodities and the buying of the labor element that, combined with them, makes the finished product.

Employers have begun to distrust their old point of view and to take a new and a far more human attitude toward the whole labor problem. There is an underlying optimism in their minds that has led many of them to believe that perhaps after all these demands of labor were not merely concessions to be wrung from capital and to be resisted at every step, but rather that it is possible that in the direction of

these demands lies the basis of a new understanding and a true coöperation between capital and labor. The employers' attitude in this respect is undoubtedly quickened by the fear that if labor now encountered a Tory obstinacy on the part of employers, there would be danger that their part of the world at least would be launched on a vast and frightfully dangerous experiment in one type or another of "nationalism" or "communism," the generic term for which in everybody's mind is now "Bolshevism."

I would not have any one infer that I believe there is a millennium at hand in the European industrial world, nor would I wish it thought that I have a conception of European or particularly of British labor that is Utopian. There is ignorance of economic law, there is class selfishness, there is stupid adherence to unsound tradition that any plan for permanently composing the differences between capital and labor will have to overcome. Opposed to that, however, is one of the most inspiriting things that I encountered in Europe. That was the quality of mind in certain Englishmen who have come up from the ranks of labor. Some of them are cabinet ministers, some of them now hold noble titles, some of them still are rendering services to their fellows as union officials.

There is truly a new intellectual aristocracy grow-

ing up in England, fed from the ranks of labor and having an outlook, an understanding, a sympathy, and withal a grip on the economic verities that marks the most promising and significant development.

In the great war America achieved the freeing of herself from the incubus of militarism at the cost of a sacrifice which, compared with the sacrifice made by the nations associated with her, has been small indeed. She faced a world situation in which military power seemed likely to be set up as the predominant force. With all the rest of the world she is now free, it is to be hoped, from that terrible catastrophe; and she has fortunately secured freedom at no crushing cost.

I believe that it lies within the power of American employers and of American capitalists similarly to make a short cut without great sacrifice to a future of industrial peace, and to escape what might be a conflict that would be as dangerous to her national life and prosperity as was the conflict we have so happily passed through. That short cut may be reached if these interests will now with one accord come to the point of view that has already been reached by European employers and capital. That will require a true vision, a development of human sympathy, a grasp of economic principles, a conces-

sion in time-rooted prejudices and a quickened understanding of the aspirations and the point of view of labor. Is it too much to hope for?

I am convinced that it is along these lines that industrial peace lies. I have come to feel profoundly that a liberalizing of the views of employers and capitalists in respect to labor will be followed by a gain to both sides, the value of which could hardly be measured. In that direction lies the hope that America may make the same sort of short cut to industrial peace that she made in freeing herself from a life of apprehension of military domination. It seems to me clear as crystal that along this road there lies not only great moral satisfaction, but side by side with that lies the greatest material prosperity.

CHAPTER XII

AN EMPLOYER'S VISION

THE changed and liberalized attitude of employers in England struck me as most significant. Perhaps I could in no better way illustrate that than by reproducing, as well as I can remember, an interview I had with an employer of first importance. This gentleman has had a wide experience throughout his life with large bodies of work people. His view of the labor question seemed to me extremely interesting. This is what he had to say:

"No one foresaw what the war was going to mean. Least of all, perhaps, did any one foresee that it was going to mean a social revolution, a revolution in the way men's minds work and a change in the point of view from which they regarded relationships with one another. We are just becoming aware that we are going to emerge from the war with an industrial revolution already accomplished.

"I would sum up my own view in regard to society's relation to labor in about this way: There are five great principles that we must accept. The first of these is a minimum wage. When we see that

labor is not a commodity, that it is no longer to be treated as a commodity, we will come to see the justice in national laws formulating a reasonable minimum wage. This means a wage to all normal men that will permit them to marry, to bring up a family, and have left a reasonable margin for unusual emergencies. I believe there should be established trade boards in every industry. I think that that may reasonably be done in the next five years. To work it out in detail must be a matter of experiment and experience, but within that time, although we may not have it worked out in figures, we should have laid the principles and be on the road where we can logically apply those principles to all the varying conditions of industrial life and eventually arrive at the definite minimum wage that every normal man, ready in his capacity to do his part, may count upon.

"After we have reached an understanding as to what the basic wage must be we must regard that really as a minimum and not as the general wage scale. I think we can reasonably leave to the haggling of the market what will be the reward for exceptional skill or exceptional industry. It would be a profound mistake to aim to fix a maximum wage. That would discourage all attempt at improvement. There should be left freedom for employers to pay more than this basic wage in order to secure men with spe-

cial skill, energy, or industry. I am engaged in a food products business. In my works the present minimum for men is fifty-five shillings per week.

"It may be argued that it will be found that there are industries which, on account of the foreign competition or other reasons, will find it impossible to pay the minimum wage. If, after a fair trial, that is found to be so, the answer should be, 'scrap the industry.' If an industry is found to be on such an economic basis that it cannot exist and pay a wage scale equal to what is found to be the basic necessity for the standard of life as I have outlined it then the country is better off if that industry goes out of existence.

"The second important point is that of hours. My own belief is that forty-eight hours a week will probably be found to be right. At the present time in the industry in which I am interested we have a forty-four hour week. We have left it to the workmen to decide how the hours shall be divided, and they have decided to work nine hours a day for four days and eight hours for one day, and to have Saturday entirely free. I think that decision is wrong. We lose the advantage of the short day's work and all the better production that would probably follow the short day's work. I think the arrangement should be five days of eight hours, with four hours

on Saturday. However, our employees felt otherwise and we are making the experiment, although we do not agree with the plan of letting them do the full week's work during five days.

"Third, labor should be given security against unemployment. That should be accomplished, not as we are doing in England now, but by means of an insurance fund to which the workmen, the employers and the State should all contribute. Conditions in England in one respect are quite different from conditions in the United States. Here we have nominally no large turn-over of labor. In our works, for example, we employ three thousand girls. Our average loss of these employees is under three hundred a year. Our experience is that our employees come to us when they first begin to work and the women remain with us until they marry.

"Conditions in regard to unemployment vary with different industries, and may vary widely in the same industry at different times. That leads me to believe that while a proper insurance fund should mainly be created by the employees and the employers in each industry, there should be coöperation between the industry and the State so as to spread the liability and not make each industry wholly responsible for all of the unemployment in that industry. The present unemployment payments are not large

enough, but they are larger than can be borne perhaps if there is not contribution to the fund by both the workers and the employers.

"We are all greatly concerned at the present time because of the number of unemployed, but that number is after all not remarkably large. What has happened is that the conscience of the nation has been awakened to its responsibility to the individual in a period of enforced unemployment, and in the light of that consciousness of responsibility the figures for the first time stand out clearly in our minds in regard to the number of unemployed. We have nearly always had unemployment but we have not been aware of its extent, not feeling a national responsibility toward those who are out of work. For a number of years prior to the war there was an average unemployment of five per cent. of the working population, and the greater part of this unemployment was owing to exigencies over which the employees had no control. A state of unemployment where no provision is made for the unemployed reacts on the whole situation in a way we have not before clearly understood. With five per cent. of the working population unemployed, and no means provided for their support, all industry feels the lack of their consumptive demand. If there was a sound general unemployment insurance the unemployed per-

centage of the community would still be in a position to exercise an effective demand for the products of industry, and it is apparent, therefore, that an adequate unemployment insurance scheme would reduce the actual unemployment. The best study which has been made of this whole subject will be found in Sir William Beveridge's book on 'Unemployment.' If the workers, the employers, and the State each contribute six pence a week for each worker it is calculated that this would provide at least twenty-five shillings a week for unemployment insurance for everybody.

"I believe some most important results will flow from a sound unemployment insurance scheme. When we discover that properly looking after the unemployed is costing us a lot of money we will do a great deal to regulate unemployment.

"Fourth, a larger control of industry by the workers. This should be the next step. The workers of this country have made up their minds that they do not intend to continue as wage slaves. They want a voice in the administration of the industrial part of the business in which they are engaged, and they want that not as an act of grace, but as a right.

"I have been very anxious to know just what was in the minds of our workers in regard to what they want

in their relation to industry. You cannot find that out merely by sitting on the opposite side of a table during an acute stage of a labor controversy. I have therefore taken a great deal of pains to get into touch, not only with the men in my own industry, but with employees generally. I have had representative workmen spend week-ends with me and talk the subject over as man to man, and I have had meetings of representative workmen drawn from various industries to discuss the subject. These meetings were not so brief and formal that we failed to get at the heart of the question, but were conferences where we got into such relations with the men that we were enabled to bring out what was really in their minds. I would take a country hotel and bring together for a week-end conference large groups of representative workmen and the result has been most enlightening.

"Fifth, the final step is to give labor a real interest in the profits of the business, and this is the lowest price at which the capitalistic régime can buy itself off from the danger of revolution. There is a great deal of preaching to the effect that the interests of labor and capital are identical. That is all bosh. The interests of labor and capital are not identical. It is labor's aim, and its proper aim, to obtain in the division between capital and labor all that it

can, just as it is the aim of capital in its division of the results of capital and labor to obtain all it can. Up to the point of an industry going to smash the interests of labor are opposed to the interests of capital. How to make this division of the results of industry between labor and capital is the most difficult of all problems.

"In my own opinion we should look at it in this way: There should first be two definite charges against the net profits of industry, (1) a living wage to labor, and (2) a minimum return to capital. Then after labor has received a basic wage and capital has received a minimum return, all that is earned should be divided between capital and labor, and in my opinion it should be divided equally.

"I am so certain that we must reach some working plan along these lines, if the present system of society is to be saved, that I am having the subject carefully studied. One of the difficulties in this whole field of an adjustment between capital and labor is that the owners and managers of industry are so engrossed with their daily business problems that they have no time for a really scientific study of the subject. Realizing that, I have employed one of the ablest men I know, a lawyer of broad experience and keen intelligence, and he is now giving his whole time

to a study of this particular problem in our own work.

"I am thoroughly convinced that if we are to save the present order of society we must make such thorough-going concessions as I have here indicated. I have had a talk recently with Sir Robert Horne and I said to him, 'Are you out for mustard plasters? If you are out for mustard plasters only, if you are looking for mere palliatives, you are going to fail. My recommendation to you is to appoint the strongest royal commission that can be brought together and have them consider these last two points, that is, the part that workers should play in the control of industry and the methods by which labor can be given a real interest in the profits of the business. I would have that commission composed of the strongest possible representatives of both capital and labor and I would make the decision of the commission law.'

"In working out a scheme for giving the concessions I have indicated to labor we must be careful to guard the freedom of labor. It is a great asset to the laborer that he can move freely from one industry to another and from one employment to another.

"I found that their complaint lay not so much against the managers of industry as against the foremen. They felt that foremen frequently were

naggers, that these foremen were badly selected, that they were drawn from men who did not know how to lead, and instead of leading they tried to get results by driving. I have been so impressed with the justice of this view that in the industry in which I am interested we never appoint a foreman without first submitting his name to the Works Council; that is, to the representatives of the workers. We submit the name of the proposed foreman and we hear what the representatives of the men have to say and listen to their suggestions. The final selection must always lie with us, but we pay a great deal of attention to the voice of the workmen themselves.

"What the workmen want is something that goes very much further than the 'Whitley Committees.' They want a real control of the technical conditions of the industry and they want that control as equals with the owners.

"A friend of mine, who is deeply interested in these social questions and who knows well my inclination and desire to meet fairly the claims of labor, recently visited my plant. After a pretty thorough study of conditions there my friend expressed surprise at the amount of unrest among the workers in the plant. My friend undertook to make some analysis of the cause of this unrest and finally summed the trouble up all in one word —'Overseers.'

"No matter how liberal were the views of the real owners of the industry, no matter how desirous they were of creating conditions which were satisfactory to all labor, we found we were being blocked by the hardness of our foremen. So we set about trying to correct that situation. We started courses of lectures for our foremen. We arranged a week-end school for one hundred and twenty foremen and gave them lectures on many phases of the situation. Some of them told us they had learned more of the art of management at one of these meetings than they had in twenty years of shop experience. We got representatives of workers from other industries, drawing them from other industries so that they would feel free to speak frankly, and we had them give talks on oversight from the workers' point of view. The result of all that has been a distinct improvement of the attitude of our foremen and this is followed by improvement in the attitude of our workers. But we are keeping the management, we believe, along practical lines. We are not making the mistake of giving too great weight to the wishes of the workers. There can be no anarchy in industry. Our workers may well be mistaken in their own point of view. But we find this, that if our men feel that they have a voice in the industrial conditions with which they are concerned they will themselves

evolve a system of regulations that is more effective than any that could possibly be imposed upon them. Men will accept conditions of control from Democracy that they would not tolerate from Autocracy.

"As matters stand to-day the owners of industry do not dare to be frank with their men in regard to the net results they are obtaining. There are times when a frank statement of the financial situation of an industry, if it were believed by the workers, would result in their coöperation either in the way of reduced wages or increased industry. Take, for example, the jute industry at Dundee. As conditions were prior to the war, jute could be produced at six pounds per ton dearer than the cost of production in India. To-day it costs eighteen pounds per ton more to turn out the product in Dundee than in India, and the result is that forty-five thousand men have gone into unemployment in this industry alone. If they clearly understood the financial position of the industry their coöperation could be had to save it. The trouble is that men have repeatedly been told when they struck for higher wages that if such an increase as they demanded were conceded the industry would have to close its doors. And then, through the strike weapon, they have forced the increase, and the industry went on as usual. It is not unnatural, therefore, that they will always answer

any statement in regard to inability of an industry to pay an increased wage by the statement that "you have said that before, but we got the raise and you went on as usual."

"One claim that is frequently made is that if the workers force a better division the result will be that capital will leave the country. Many people thought that if such a plan as I have in mind for the division of profits were to be enforced capital would emigrate and leave industry prostrate. I do not believe that is so. Let us take, for example, an industry that is now earning fourteen per cent. Suppose an arrangement were made with the workers so there was paid to the capital invested six per cent., and the remainder divided between capital and labor. Under that arrangement capital would receive ten per cent., but I believe it would receive ten per cent. only for a short time, that eventually it would be found that it was earning, not the fourteen per cent. it had before, but twenty per cent., which would be its share of a division with satisfied workers.

"To-day the brains of the country are being wasted. In a factory employing, say seven thousand people, the work is directed by the brains of perhaps not over a hundred. If such an adjustment could be made that the brains of the whole seven thousand were engaged with the problems of that industry, if all the

workers had an intelligent grasp of at least some part of those problems, and all cheerfully applied their energy and brains to the welfare of the industry because they were satisfied with their working conditions, and felt that they occupied a just relationship to the results obtained by the enterprise, then the profits, both for capital and labor, would be far beyond anything that the present system can produce. The country that first arranges its industrial life so as to meet these conditions, the country that first puts the brains as well as the backs of its industrial population into the work that is being done, will forge so far ahead of other nations that men will wonder that society could ever have endured the present system.

"There cannot be full production in industry so long as there is dissatisfaction on the part of the workers. The water flows deeper than anything that is touched by these 'Whitley Committees.' Tap the brains of the whole nation. Get men to work with the industry which goes with a satisfaction with working conditions, and we will have a revolution in industry indeed, but one which will bring such beneficial results as have never before been obtained."

CHAPTER XIII

THE POWER OF MINORITIES

WHOEVER has hope for humanity, whoever believes in democracy, is convinced that the great mass of the people is right-minded, well intentioned and, despite local aberrations, that the voice of the great majority is a wise voice. One comes to a comfortable optimism that things will work out well in the end if the majority rules.

One of the most startling impressions which I have received in Europe is that the majority do not rule and that sometimes minorities, apparently almost inconsequentially small, may grasp power and wield it in amazing fashion. If this is so we cannot rest comfortably in the assurance that majorities are right-minded and that rightmindedness will control destinies where majorities have the ostensible political power.

Perhaps the most awful illustration of all time of the terrible power of a minority is to be found in the starting of the Great War itself. The power of that numerically insignificant party of Prussian mili-

tarists to throw a whole world into a cataclysm has no parallel. But here it may be stated there was no free play of the voice of democracy and that a great people had no volition, but had to follow where they were led.

Let us take another illustration. Perhaps 100,000,000 people of the 175,000,000 that once constituted Russia have passed under the sway of a Bolshevik régime, although the true adherents to that political theory probably numbered less than 5 per cent. of the population involved. The most centralized and autocratic government in modern times has sprung up in Russia, although 95 per cent. of the people involved did not adhere to the political theories and would repudiate the authority if they could.

Perhaps it would be as appropriate a place as any to give a picture of the internal Bolshevik Russia on the first of April, 1919. It is a second-hand picture to be sure, but it is only second hand. It is made up from facts related to me by one Russian and two Americans who were in Petrograd and Moscow for the purpose of observation, who had conferences with Lenine and Trotzky, and who must at least have grasped the superficial aspects of life under the Bolshevik régime.

Here are the essential features of what these men

told me they saw. They entered Russia across the Finnish border, taking with them a certain amount of food, and came without great delay to Petrograd. Their first impression was a City of Silence, but not a city of destruction. Petrograd stands outwardly very much as it did before the revolution. The Winter Palace is scarred here and there from shots, and there are traces of the effect of machine-guns on the walls of a good many buildings. There has been no wholesale destruction. Every shop in Petrograd is closed and the windows shuttered. Whatever may be bought must be purchased from the great government department stores. Their stocks are meager and there are many awkward blanks. Not over one million people are left in the city. Literally, starvation is a matter of daily occurrence, because of the impossibility of moving food into the city over the broken-down transportation system. Out of 26,000 locomotives that none too adequately served the Bolshevik region prior to the revolution, less than 5,000 are in active use. Many of these but limp about their work. There is not a ton of coal in all Bolshevik Russia, and locomotives must be fired with wood. Starvation follows the breakdown of transportation, and would continue no matter what sources of food there were at the end of these broken down lines of railways.

I was greatly interested to learn as a passing piece of information that the great art treasures of the Hermitage Museum in Petrograd are unharmed. My friends visited the museum, saw the pictures and bore testimony that the gallery is intact. A few of the most valuable pictures had been sent to Moscow at a time when a raid was feared across the Finnish border, but at the time of this visit arrangements were being made for their return.

While Petrograd is a City of Silence, Moscow is a center of chaotic activity. Being the seat of the most autocratic governmental power of modern days, the home of a government that has centralized its authority to the highest degree, while at the same time that authority has been extended to the minutest control of individual lives, the whole heartbeat of Bolshevik Russia was discernible there. Again there was evidence that the tales of material destruction have been overdrawn. The stories of a destroyed Kremlin are absolutely untrue. There was no evidence of damage within the Kremlin walls, and the only evidence of damage was where two pinnacles on the Red Gate had been destroyed and workmen were at that moment engaged in replacing them. Hunger was as acute in Moscow as in Petrograd. The difficulties of transportation were the same. In spite of this breakdown in transportation my friends

made the trip from Petrograd to Moscow in thirteen hours, which is only two hours longer than the old time schedule.

A revolution which started with soldiers' councils voting on whether or not they should salute their officers and what measures might or might not be used by the doctors in controlling the spread of typhus, a revolution which was marked in the beginning by committees of workingmen deposing factory managers and "democratizing industry" to the limit of socialistic imagination, has passed to quite another phase. There are no more Soldiers' Councils. Instead, there is the army dominated by a system of discipline that would make a Prussian officer turn green with envy. Trotzky, be it remembered, is Lenine's Secretary of War. He has been as mad as Nero with bloodthirst. When the peasants who wanted a definite title to particular parcels of land, quite in contravention to the Bolshevik theory of communism, revolted, Trotzky sent an overpowering military force against one village, and when its day's work was done not a single man, woman or child remained of the 2500 that were there at sunrise. This was merely an example of terrorism taken perhaps from the book of the Huns.

On another similar occasion, the regiments were sent against a revolting village and retired defeated.

Trotzky's method of discipline in this case was to order the execution of every officer in the regiment and every tenth man in the ranks.

Broadly speaking, however, the old days of terror are over. A stern morality has taken possession of the people. In their distress there is a great revival of religious feeling and in their desperate condition they are turning to the Church for comfort. Bolshevik Russia is absolutely dry.

In their political theory of communism and with the Government's complete control of the food supplies there is but one method of averting starvation, and that is to obtain bread cards. But a bread card it is true does not always mean bread, and people sometimes starve with bread cards in their hands. But without the bread card food may not be had. Those who are entitled to a full bread card are the soldiers, people engaged in essential work who accept the Bolshevik régime, actors, ballet dancers, and all government functionaries, who now number a multitude. Others although accepting the Bolshevik rule but not engaged in what the State regards as necessary work, receive half a bread card; while those who do not work or will not accept work under Bolshevik conditions may receive a quarter bread card, which if it could be converted into bread would still not sustain life. Naturally, the community is Bol-

shevik. Those who do not accept Bolshevism accept death.

The minute ordering of the lives of people, the dead level of reward and the meagerness of that reward tends to make Bolshevism pall when viewed as a political panacea by its victims.

The governmental ordering of life, the total loss of personal freedom, is building up a new party, an extreme left of Anarchism, which bitterly resents the extreme developments of the Government's control of the individual which has been a necessary part of communism. And so it has come that Lenine is regarded as a reactionary by this extreme left, and there is growing up some of the same opposition to his democracy that undermined the autocracy of the Czar.

The personal picture of Lenine, with which I have found no disagreement in speaking with a number of people who are well informed, is that he is a man of most extraordinary ability, and with some truly fine characteristics. He was a Russian idealistic noble and came to be a man of only one idea. He believed that the régime of capital meant slavery and that the world would find freedom in a communistic state of society. In his own mind every motive was fine, every act moved by patriotic sympathy and love for the people.

In Lenine's War Minister, Trotzky, there seems to be utterly different material, except that, like Lenine, he has shown vast ability to organize. He has a thirst for blood such as had mad emperors of Rome. He is vindictive, cynical, cruel. His aim is to impose Bolshevism on Europe by force of arms. Both he and Lenine agree that Europe cannot stand divided between a communistic and a capitalistic state of society. One side or the other must fall. Trotzky wants to bring the fall of capitalistic society by force of arms. Lenine, however, believes that each nation must work out in its own way and by its own revolution its change from a capitalistic to a communistic state. He wants to aid by propaganda, advice and financial help the fomenting of such revolution, but he would be prepared to demobilize the Red Army if the armies of Kolchak and Dinikine and those of his enemies on his northern and western fronts would disband.

Already the Bolshevik Government has had to make sharp compromises with its communistic theories. When the peasants, following the revolution, got in their possession bits of land their views of communism quickly changed. They demanded a guaranty of title to specific land holdings. It was this demand that confronted the Bolshevik Government, and in the end it had to be granted. Bolshevik com-

munistic government to-day is giving specific land titles, quite against its communistic theory, to the peasant classes.

In another particular they had to compromise with the theory of a common communistic wage. The "democratization of industry" as exemplified in Russia was not a success. It seemed to be essential that some of the old managers of industry should be brought back, but they were not inclined to come for a bread ticket. So the Government is paying some very handsome salaries (in its printed paper money it is true) to the trained industrial managers. Thus the second compromise with economic principle was made. Then under the pressure for things from the outside, negotiations were begun to alienate to capitalistic use and enterprise tracts of royal land in order to get capitalistic credit with which to pay for capitalistic made boots and other needed imported articles.

Making predictions of any kind is dangerous business. To make a prediction about so vast a chaos as Russia would need a quite foolishly reckless prophet; and still without making a prediction I am going to make a guess. The Bolshevik régime is a passing phase. It will be succeeded by a dictator, again representing an effectively powerful small minority. The period of dictatorship will be followed

by a constitutional monarchy, for Russsia with its eighty-five per cent. of illiteracy and with its unstable and idealistic national character, is not ready for a real democracy. And then sooner or later there will emerge a nation, the most solvent in Europe, because it has the richest natural resources. It is a nation that has more nearly the characteristics of the United States than any other nation in the world, and it may yet have some of the same type of marvelous prosperity. In a sense, the obligation of Russia, discredited and repudiated as it is to-day, is more valuable than the obligation of some countries whose obligations have hardly been questioned, because there is in Russia the inherent wealth to make good its obligations.

But all this is but guessing, and one man's guess is worth as much as another's. While I am guessing, however, I will make another. Russia will be dominated and exploited by Germany, unless the United States shows unexpected prescience, courage and a disposition to take a financial adventure. Germany lies adjacent to Russia. I am told there are 100,000 Germans who speak the Russian language. The intelligencia of Russia has well nigh disappeared. At least 50,000 have been assassinated, and at its best the intelligencia of Russia had not demonstrated great powers of industrial organization.

The imperial spirit of conquest has not been killed in Germany. When the war started the axis of German ambition pointed toward Bagdad. Now it will swing around toward Moscow and the rich world beyond. There will be an escape for Germans from the slavery of indemnity by migration to Russia, and an almost free field for German direction, because there will be few Russians left with capacity to direct. Indeed in some quarters it is believed that there has been German planning to the killing off of the Russian intelligencia, which was but another phase of that devilish cunning which destroyed the machinery of Belgium and Northern France without military necessity but only that commercial competition might be ended.

If America cares to grapple for a hold on this vast chaotic world of Russia there is a wonderful opportunity. The American mind comprehends Russian conditions. If our people would go there in force, going with a desire for service in their hearts, rather than with narrow views of immediate exploitation for profit, we could give Russia a future and save her from a fate that would make a wide difference in the writing of the next hundred years of the world's history. If we keep hands off, the Russian border will offer an opportunity for escape from indemnity servitude to many Germans, and the genius for pitiless

human organization, which Germany unquestionably has, will find a wonderful field to display itself upon the Russian people.

These two examples of Prussianism and Bolshevism are extreme and not particularly good examples of what I mean by the "power of minorities." The point that I wished to make is one that I found illustrated in many European countries, of what an active minority can do pitted against a phlegmatic majority, and particularly a phlegmatic majority which has little solidarity.

What I have seen leads me to believe that it might be possible in any country to change the course of government, to overturn the form of government, indeed even to impress upon the people a new form of social order, while the great majority of the people had no desire for such a change and took no active part in bringing it about.

I believe that a spread of Bolshevism in Europe can come either through contact with Bolshevik countries or by a spontaneous outbreak of Bolshevism in a community where industry has been paralyzed and idleness is followed by want and hunger. There are fourteen countries bordering on Bolshevik Russia, and they are directly exposed to the contagion. Proximity, however, would not be necessary to a development in one form or another of revolutionary

movements looking to the establishment of communistic society. In every country in Europe there is a minority that is profoundly suspicious of and dissatisfied with the capitalistic order. They found that democracy did not bring to the proletariat what it considered to be its rightful share. Then they organized labor unions and the weapon of the strike came into use. The organization of strikes to enforce the demands for higher wages met with success, so far as wages are measured in units of currency, but frequently met with failure to better the condition of the workers because of advancing cost of living. Men got higher wages and found themselves worse off. This has contributed toward building up a sentiment of suspicion of the very foundations of the present social order, and everywhere, England included, there is a significant minority that refuses any compromise with the existing order, that looks upon all concessions to labor in the form of higher wages, shorter hours, unemployment insurance or even profit-sharing, as a sop thrown by capital to divert or confuse the working class.

This minority of extremists nowhere is large. In England it was estimated, in both conservative and radical quarters, as being at the minimum somewhere between ten and fiften per cent. of the total organized mass of union labor. I fancy the proportion is

not less, and I doubt if it is much more in any of the European countries which I visited. Everywhere it is an active and distinctly forceful minority and knows much of the power of propaganda. Within the labor unions themselves the radical element has a voice quite out of proportion to its numbers. The unionist who is comparatively satisfied with his lot and has little faith in socialistic schemes to improve it is apt to keep away from the controversial discussions and fails to attend most of the meetings of his own union. Those of his fellows who hold extremely radical ideas have a certain fanatical industry. They are always busy at propaganda. They are always keen to be heard, and they never fail to register a radical vote whenever a vote is to be taken.

There is a constant struggle on the part of conservative leaders of union labor to hold in check the wing of their organizations represented by the extreme radicals, and they all admit that there is a menacing danger that the minority may run away with the majority. Let conditions of hardship develop in which it was difficult for every one to see means of mitigating the hardship by any of the usual methods, and the radical minority might easily assume leadership, and almost overnight find itself in command of the situation. This is why it is not safe to base predictions of the future course of events

on any present analysis of the relative numbers of radicals and conservatives.

In recognizing this element of instability in the European situation it might be well if we took the lesson home and became conscious of the fact that our own great conservative majority is phlegmatic, not unified, almost voiceless, and at the same time note how efficient are the methods of active radical minorities. We have socialist papers with a million circulation. There is a steady flow of incendiary pamphlets through the tenements of the East Side, the authors of some of which could legally be shot for treason. Socialistic speeches are made daily in Wall Street, while the men in the adjacent offices give far more time to scheming how to get advantage of a business competitor, than they give to original thinking on economic and social questions. America is the greatest of democracies, pledged to the sovereign rule of majorities; and America should beware of the power of minorities.

CHAPTER XIV

THE WORLD'S FINANCIAL CENTER

Is New York to become the financial center of the world? That is a question which first arose in the minds of boasting ignorance, but to-day it has become a question that is entitled to be asked in seriousness, examined with care, and answered in the light of new conditions. There are three important reasons why it is difficult to remove the financial center of the world from London to New York. First, there are the worn channels of two centuries of international commerce, channels worn so smooth that it became easier for Chile to pay a bill in Peru by means of a draft on London than to pay direct. London is the established clearing house of the world, and by fair treatment and, in the main, by holding tightly to sound principles of banking, has maintained the right to hold what she long ago established as her own.

There is a fundamental requisite, however, if a city is to be the financial clearing house of the world. That requisite is that there should be no uncertainties surrounding the meaning and value of a deposit

balance in a bank at the clearing center. It has always been England's proud boast that sterling meant gold, that a deposit in an English bank could under any conditions, at the will of the depositor, be converted into gold and sent by him where he would. It seems to me that this is an essential that must be possessed by the international clearing house of the world, unless we are to substitute for the gold standard some other method of ultimate payment of international balances. There are many adroit brains working on that problem to-day, and some extremely interesting plans have been formulated by various European bankers looking towards the creation of an international currency or an international obligation by the means of which international current obligations could be settled in a world clearing house without the necessity of ultimate redemption in gold. If that can be done, then England perhaps can retain her financial supremacy. If it cannot be done, the ultimate permanence in her position will need further analysis.

Any plan looking toward the payment of international balances in any other medium than gold must have the assent of the United States, for the United States is now the great creditor nation, and under the working of any such plan would become the holder of a vast creation of the proposed inter-

national currency or clearing house credit obligation. Without the coöperation of the United States it would be idle to plan any such scheme. And it needs no deep knowledge of finance to see that every plan looking toward the accomplishment of this purpose could, when clearly analyzed, be at once translated into language that our laymen could understand. The language would be that to the United States was assigned the position of "holding the bag."

The second point of advantage which London has over New York is her geographical position. Physically close to all the European countries, and capable of being reached from most of them direct without passing through others, she has enjoyed a unique advantage compared even with any continental point. Distances in geography are not all to be measured on a map either, but rather one must take into account established lines of communication. England has been the Mistress of the Seas, and no point in the world has had such international mail facilities as London has had. This gives to London a central geographical position out of all proportion to her advantageous position on the map. Compared with New York, under the present conditions of transport and with the present routes of mail delivery, London has a vast advantage. The greater part of the mail

from the whole continent of Europe on its way to New York passes through England, as is the case with most of the mail from the Levant and some from points further East.

In the world changes that have come about I am not sure, however, but that we are even going to change geography. The day I am writing this there is expected to take place the first trans-Atlantic flight of an aeroplane. If that marvel can be accomplished at all, and there seems little reason to doubt that sometime it will be, is it altogether improbable that it may in time be accomplished with such ease and with such speed that the globe will shrink on the Atlantic side until a letter from New York can be delivered on the continent almost as quickly as a letter from London has been delivered? The English are showing great courage, skill and national pride in forwarding a trans-Atlantic flight. I am not sure that in doing so they are not hastening the day when one of the great advantages of financial London will disappear because progress in mechanics will in effect alter geography.

The first two advantages that London has over New York, the advantage of long-worn tradition and of geographical location, are great, but she has another advantage that far outdistances either of

those, an advantage as difficult to overcome as are the advantages of time and space that are involved in the first two considerations. This last is a human advantage, an advantage of possessing skilled men, men who have grown up through generations engaged in international finance, men whose minds are trained by practice and tradition, who have had the advantage of international association, who have acquired international understanding and who, above all, have that staunch English character that commands respect of dollars, francs, pesetas, lire or kroner. Have we the men to form at least the nucleus of the organization we must form if New York is to take the financial palm from London, and are we capable of quickly training the large number of international bankers who must be developed to handle the intricate business of international finance, if we are to become in our turn the clearing house of the world?

It is fair to say that London bankers doubt our ability to create the technical organization that will be necessary, if we are to try to assume the responsibility of world financial leadership. They recognize frankly their present disabilities, but they think the safety of their position lies largely in our inability to create a competent technical group of international bankers, and back of that to educate our in-

vesting public to a realization of the opportunities and responsibilities that go with international financial leadership.

If the situation were one in which there was really left much room for chance or choice, there would be, I think, a great deal of force in the English view of our disabilities. In my opinion, however, America's rôle in the financial world in the future is practically an inevitable one. The measure of success with which we play it will be gauged by the ability that we bring to the task, but we will have to show extraordinary inaptitude in handling the opportunities and responsibilities of the situation if we block what is almost an inevitable progress toward international financial leadership. America has a third of the monetary gold stock in the world and has it concentrated for effective use by means of what is on the whole the most scientifically organized banking system in the world. Our Federal Reserve System is measurably better in its structure than is the present English banking system. English bankers freely admit that. Some of the leading bankers are looking to the Federal Reserve System as a model to use in the inevitable reshaping of the structure of the Bank of England and the general banking system in Great Britain.

A bank balance in America certainly should be

the equivalent of gold under practically any circumstances likely to arise, and in any event a bank balance there can be more certainly turned into gold than can a bank balance in any other financial center. That alone should make New York the depository of a great part of the international bank balances coming from every quarter of the world. Those balances will be placed in America because of the readiness with which they can be converted either into bank balances elsewhere or into gold that may be shipped to augment bank balances elsewhere.

There is another impressive reason why fate seems to have marked New York for a position of international financial leadership. As a nation we are already a foreign creditor to such an amount that annual interest payments now run between five hundred and six hundred million dollars. Added to that, we are the greatest producers of food and raw material and minerals in the world, and for years to come our commodity trade balance seems likely to run several hundred millions a year in our favor. In what is this huge credit to be paid? It must inevitably be paid in foreign securities. We may admit that our investors are not educated to foreign investments, but even though that is true the investors, rather than the foreign investment, must give way, and we must see to it, and inevitably will

see to it, that our investors are educated to an understanding and appreciation of foreign investments. Whether we wish to or not, we must accept something like a billion dollars a year of foreign securities and they must be placed with our investors. There is no other way to settle the favorable trade balance which the next few years will inevitably create.

If then, we are the one financial center where a bank deposit is equivalent to gold, and we are the principal country from which foreign credits must be sought, and where from the very nature of the situation they must be granted, then, it seems to me, we have the elements necessary to financial leadership. We must develop the ability and understanding which will permit us to cope with the problems of international finance. These considerations lead me for the first time to reach the conclusion that the answer to the often put question of whether or not New York is to become the financial center of the world is "Yes."

CHAPTER XV

AMERICA'S OPPORTUNITY

SOMETHING of what the Great War has meant to Europe is what I have been trying to describe in the preceding chapters. We all look at even great events in the light of our own personalities, and what America is most keenly interested in undoubtedly is what the Great War has meant to America. Many books will be written on that subject alone and to attempt such an analysis in a single chapter, and to attempt it before the currents set in motion by the War have had time to unite in any great resultant force that is clearly discernible is both difficult and dangerous. Such a vision as any one can have of what the Great War has meant to America must at best, at the present time, be imperfect and, indeed, little more than a suggestion as to possibilities.

There are some points in respect to America's relative position in the world that can be defined with a fair degree of assurance, however. The advantages of America's unique position, combining the resources of the greatest world capitalist with the

resources of the nation richest of all others in raw materials, give promise of a material prosperity unparalleled.

In the industrial world, America has advantages which will enable her successfully to compete with other nations and at the same time, pay rewards both to capital and to labor such as industry in no other nation can pay. Those advantages are inherent in our own position. Other nations, to a greater or less degree, are workshops to which raw material must be brought from more or less distant places, wrought into finished products and, in part, again exported so that the profit of the workshop can be largely used in importing food to sustain the workers.

America is almost self-contained as to raw materials. We must import rubber, but all other rubber manufacturing centers must do the same. We import some ores that, mixed with our own inexhaustible supplies, help to produce a higher quality of product. Among foods, the coffee bean, tea and chocolate are perhaps the only serious demands we must make on other lands. Of course, we must have imports if the world is to pay for what we export, and we can consume large values of foreign fruits, tea, chocolate, nuts, vegetable oils and the luxuries of silk, precious gems and platinum in which to set them.

But these are not fundamental necessities to our industrial life as are the imports of coal, cotton, wool, hides, copper, mineral oils and cereals that are fundamental in the lives of the great industrial centers of the world.

So much Nature has done for us but our own political life has given to American industry an advantage which, if we had but that alone, would be an almost determining factor in giving us ultimately industrial world leadership. The manufacturer who has, in the first instance, a domestic demand from 105,000,000 people, rich in the purchasing power which general prosperity gives them, separated by no hampering political boundaries, with no hurdles of tariff, no differences of language, with no unshakable adherence to time-established local differences of styles — a body of 105,000,000 people moving freely in their national intercourse, all keenly receptive of any improved or novel design, all wearing much the same type of hat or coat or shoes and liberally adopting the best in forms of tools, in means of transportation or in styles of articles of luxury or entertainment, the manufacturer having such a market permitting him, as it does, to reap the vast advantages of mass production (no matter what line of goods he produces) is almost at once placed in a position so superior to that of the com-

petitors lacking these advantages that, for this reason alone, he stands almost hors de concours.

Then we may add to these advantages a background of almost limitless agricultural capacity. We have fields that produce under our methods great yields with the least expenditure of human labor found anywhere in the world, while the products of those fields are moved at the lowest transportation cost of any land transportation in existence. There are other nations that move tonnage on inland water-ways more cheaply than we do, it is true. There are other acres that produce per acre a much higher yield but if we compare the amount of human labor expended in other fields with the amount expended in ours, the difference is startling. For the whole of England, for example, a recent census shows that the average number of agricultural employees per 100 acres is 46, while in 1910, the date of the last census figures, the 478,451,750 acres of our improved agricultural lands consumed the labor of but 12,659,203 agricultural workers in the United States, an average of 2.64 per 100 acres.

Then let us remember that there has been comparatively little direct disorganization of our whole machinery of life by the catastrophe of the Great War, while in Europe there has been not only immeasurable direct destruction from the War but what

will prove more harmful than all that, there has been disorganization of the delicate interrelations and reactions in the whole international industrial machine which it will take, at best, a generation to correct.

In the all important relationship between capital and labor, we start with some comparative advantages, too. Labor with us has been far better paid and has fewer just grievances than has labor in any other industrial nation. Still we have our share in the world problem of bringing about true coöperation between capital and labor. Those nations which make the greatest progress in that field will have an ultimate advantage over those nations which keep up an internal warfare that fosters discontent, resulting in great masses of population feeling that they are living under conditions of bitter injustice. This is true, no matter what other advantages the discontented people may have.

I have come to believe that half the woes of the world are directly attributable to an ignorance of economic law and to a blindness to social injustices. In the end, the prosperity of a people always bears a true relation to their capacity for production. If the capacity for production be interfered with, as it always must be, when workmen are discontented, because they feel that they unfairly share in the

profits of industry and because of economic fallacies to which they cling that result in a conscious limitation of production, then the limits of national prosperity are sharply bounded, no matter what the richness of natural resources may be. Therefore I believe that the measure of our future prosperity in America is definitely related to the wisdom with which we work out the relationship between capital and labor. That relationship will never be wisely worked out in an atmosphere of economic ignorance. Our failure to understand the purport and significance of some of the great underlying principles of economics is general. There is quite as much of that ignorance in the managing offices as there is in the factories.

Elsewhere I have tried to give some exposition of what seems to me the greatest problem of the age as it is presented in Europe, the problem of the relationship of capital and labor. I believe the stability of the present order of society, the maintenance of a society based upon the principle of property rights, is bound up with the way this problem is worked out in Europe. We cannot stand a world apart in its solution. Indeed, we cannot stand a world apart in any sense. No matter how self-sufficient we may believe ourselves to be, no matter how unlimited are the resources of natural wealth within us, we are

inevitably part of what is coming to be a very small world, a world in which ideas travel with a freedom and rapidity that must force us to become internationalists in our views, and must govern us by international considerations, whatever may be our natural tendencies to Chauvinism or our disposition toward an insular isolation and security.

A farmer in a Kansas cornfield may fail to see what concern it is of his if there is unrest in the Balkans, Bolshevism at Warsaw, a growing army of adherents to Syndicalism, or Guild Socialism in England, or a financial crisis in France. Inevitably, however, this farmer in the center of America will directly feel the effects of all the ebullitions of life on this other continent. He is to-day nearer to the things that may happen in Paris, in Belgium or in London than were the peasant farmers in those very countries to their own capitals in times gone by. If a Kansas farmer is to find his direct interests involved, quite in spite of himself and probably without his knowledge or understanding, in the tangled influences that will be working on the social life of Europe, then what may be said of the manufacturing and financial interests of America that are already conscious of their relation to world affairs?

Let no American feel that he can escape all rela-

tionship to post-war developments in Europe. That is impossible, and being impossible, we should at least aim to understand those developments sufficiently to recognize something of their significance to us and judge of our responsibilities to the outside world. The future of Europe is going to be largely shaped by the wisdom or the lack of wisdom that we in America show in our grasp of European affairs, in the way we seize our world opportunities and in the sincerity with which we discharge our world obligations and render service where service is due. If we are narrow, provincial, selfish, all those qualities will react on our own future. If we are wise, broad and generous with our help, our recompense will be beyond measure.

And now in conclusion I want to say one solemn word in regard to the supreme lesson which I have drawn from my observation of the present situation in Europe and that is a lesson to which I have not in this book heretofore referred. It is the duty that lies on each of us to give our country good government. I did not know before that I had in me a power of such poignant sympathy with dumb and uncomprehending peoples as this opportunity for observation has awakened. One hears the demagogue prate about his love for the people and properly rates those sentiments. No one with seeing eyes and a

sympathetic heart could make a wide observation of present European conditions, however, without being moved to his depths in pity of peoples who are suffering because they have been badly governed.

Here is half the world, half of that world of intelligent, literate, industrious people who are made on much the same lines as ourselves, who, through no fault of their own, who, in spite of a willingness to labor skillfully and industriously, have passed through a horrible catastrophe and are facing another that might in the range of possibility be still worse. Their fate has been and will be directed by factors that seem outside their own volition.

Wherever there has been moderately good government, there has quickly followed astounding progress. The inherent capacity of people under modern conditions to improve their surroundings, given the boon of honest, wise and just government, is marvelous; but whatever a government lacks in honesty, wisdom and judgment this is quickly reflected in a plight that seemingly no amount of fine individual characteristics can overcome. Much of the lack of good government comes solely from ignorance.

No matter in what direction we look, we find some men in governmental positions who seem more moved by personal ambition than by an unselfish desire wisely to serve. No matter what desperate national cir-

cumstances may exist, we see that great national needs fail sometimes to bring out from national leaders the unselfish service that their people should have.

I have said that it appears that half the woes of the world were occasioned by economic ignorance, and it seems as if most of the other half could be traced to selfish political ambition. And so this is the lesson that has dominated all that I have learned. It is that the crime of all crimes, most far-reaching in its effect, the crime which involves harm to more innocent people than any other in the whole category of human frailty is the crime of abusing the privilege to serve. A thief may injure him from whom he steals. A murderer cuts short a single life. Those crimes are as nothing compared to the uncomprehended crime which a public official commits in permitting personal ambition or ignorance to blind him to public duties.

If enough Americans could see what endless consequences of sorrow and injustice flow from the almost unconscious acts of men who fail to recognize the solemnity of a public trust and who shape their acts on lines which they conceive may further their personal ambitions rather than steadfastly keeping before them the opportunity for service to those who have put them in high position, I believe that America could then easily take her true place in world

leadership. If that could be done, there would be an end to lightly passing over failure or dereliction in public office. Men unfitted by ability or moral grip to comprehend and to render the service that they might do, would be driven from public place by a whirlwind of public opinion. Conversely, men who did discharge the great obligation laid upon them by a public trust would be honored far beyond the honors that can possibly come to success in other fields.

And so it all goes back to a sound citizenship, to a comprehension by all of us of our individual responsibility for good government, to the active acceptance of individual responsibility by every man who lays any claim to the rank of good citizenship.

CHAPTER XVI

AN INTERNATIONAL LOAN TO EUROPE

After I had had an opportunity to study conditions throughout the European countries which I visited, I prepared, just as I was leaving Holland on May 1st, a brief outline of a plan for an international loan to these European nations so urgently in need of aid for the restarting of their industrial processes.

I presented this outline for discussion and criticism to some of our American officials from Washington, to a number of leading French statesmen and financiers, and to the principal bankers in Holland and in London. The details of this proposed peace loan might be worked out in various ways. The principles on which such a loan is based, however, I feel should follow essentially the fundamental lines of this brief statement. In the following paragraphs I have set forth, in practically its original form, the memorandum discussed with the various government officials and bankers in Europe.

MEMORANDUM IN REGARD TO AN INTERNATIONAL LOAN

It seems to me obvious that the problem of financing the rehabilitation of Belgium, France, or any other of the European nations, is one that must be solved for Europe as a whole. It is undesirable to take up the financing of one country separately and at the same time allow other European countries, through lack of aid, to fail in restarting industry.

European nations might be compared to a group of houses in all of which is inflammable material. Fire in any one would endanger all, and it would hardly be worth while to put safeguards against fire originating in a single house. The safeguards would have to be put in all the houses or there could be no safety for any of them.

A failure to restart industry in any European nation, resulting in continued idleness, want, and hardship, is certain to lead to social upheavals that will be communicated to other nations. The problem, therefore, is an inclusive one, and must be so solved that there will be a serious and a comprehensive effort made to reëstablish the industrial cycle in each one of the European countries simultaneously. If this is not done, there can be no safety in financing any one of them.

If the financing of reconstruction is considered by nations separately, the question of security will be-

come a determining factor in any plan for making advances. Europe presents a situation in which the determining factor in regard to rehabilitation loans should be necessity rather than security; for, unless those nations in which the necessity is the greatest are cared for as well as those in which the security might be thought to be the best, social or industrial disorganization may result. The contagion thus bred might spread, endangering the whole social fabric of Europe.

The element of time is now of prime importance. Unless there is speedy action in the direction of restarting paralyzed industry, there may follow a quick march of events toward revolutionary outbreaks in any country where idleness is continued and is followed by hunger and want. The prime economic necessity is now to reëstablish the flow of production, to give employment to the millions of unemployed, and to get each European country started back toward a normal industrial life. The danger in not doing this promptly, or in not doing it for all, is so extreme that it is no exaggeration to say that failure to do this may mean a breakdown in European civilization which will involve the whole world. The conditions are so extraordinary that extraordinary means of coping with the difficulties should not be rejected because of their novelty.

If we were to wait for government credit granting, there may be involved so many political considerations that an amount of time would be consumed such as to make any projected scheme of aid without avail. One of these political considerations lies in the fact that those nations which have shared in the ten billions of loans the United States has made to the various European governments, now feel that there is just ground for suggesting that these loans be modified or even canceled. This sentiment is general, and is held in high places. In the face of that fact, it would seem to be doubtful wisdom further to increase the loans which our government has made to the European governments. The amount required is so large that it would be far better to formulate a plan which will not call upon already overtaxed governments. The demands can much better be met from the broader sources of private investment if a security can be created which will appeal to the private investors. But if the situation is left for private investors to attempt to create an adequate security in individual cases, there might be set in motion such endless negotiations that the apprehended catastrophe would be likely to occur before the minds of lenders and borrowers could be brought together.

The danger which would surround any security

that could be created under such circumstances would be so great that private investors would be forced to demand what would look to borrowers like extortionate rates; and international relationships, which are already showing evidence of strain, would be likely to undergo still greater stress, which might develop such unhappy international results as to endanger any attempt to create adequate credits in this form.

With these considerations in view, it would seem that any successful attempt to finance the rehabilitation of the Continental nations must keep in mind the following fundamental principles:

(1) The European situation must be treated as a whole.

(2) The amount involved is so large and the element of time so important that it is extremely dangerous to undertake the legislative programs that would be necessary before lending countries could place their governments in a position adequately to participate in a loan to the several borrowing nations.

(3) There are the most important considerations pointing to the desirability of accomplishing the necessary financing at a moderate rate of interest.

(4) The political situation is so involved, and the financial conceptions so various and chaotic in the

different countries that it is highly desirable to present one formula for obtaining credit which all the borrowing countries should alike follow.

(5) If private investment funds are to be promptly and successfully attracted at moderate interest rates, there must be created an obligation that offers the highest type of security that it is possible to create.

(6) As the total aggregate of what each borrowing nation would believe was a minimum required for rehabilitation of its industries would reach a sum too large to be contemplated in any proposed plan, the lenders should determine, based upon a study of the necessities of each nation, what the apportionment of any proposed loan should be among the several nations.

(7) An independent judgment arrived at in the light of the representations made by each nation of the minimum necessary to start industrial production would present a sounder program than would result if each individual nation were merely given a financial credit and left free to work out the expenditure of that credit as it saw fit.

(8) In view of the urgent necessity for restarting the industrial processes, a necessity paramount to any merely financial requirement, the entire proceeds of such a loan as is herein proposed should be realized

by each borrowing nation in the actual form of food, clothing, fuel, machinery, raw materials for manufacture, and rolling stock for the rehabilitation of transportation; and none of the proceeds of such a loan should go into the treasuries of the borrowing nations to be used for governmental financial needs.

In view of the foregoing considerations and of the suggested principles that should be embodied in any comprehensive scheme, the following is a plan for an international loan, to be participated in by the United States of America, the Netherlands, the Scandinavian countries, Switzerland, Japan, those South American countries which are important exporters to Europe, and Great Britain, although the latter to perhaps a limited amount, if British interests so desired.

PLAN FOR AN INTERNATIONAL PEACE LOAN

The governments of the lending nations each should appoint a consortium of bankers, to have charge in the respective countries of the flotation of an international loan of a certain amount. These consortiums of bankers in conjunction with their respective governments each should appoint members of an International Loan Commission, the headquarters of which might well be in the Peace Palace at The Hague; and the number of representatives of

each country respectively, or their voting power, should be equitably determined.

The International Loan Commission would determine, from the facts regarding the industrial situation in each of the possible borrowing countries, the proportionate allocation of parts of the total loan to each borrowing nation; and later should determine, in conjunction with representatives from the borrowing nations, the definite amounts of machinery, raw material, rolling stock, etc., which should be furnished.

Each lending nation would furnish, according to its capacity, an amount of machinery, raw materials, etc., equal to its amount of participation in the international loan, with adequate safeguards insuring to the borrowers that these materials were furnished at proper prices.

The International Loan Commission would propose to the borrowing nations that they would furnish to them credits to the determined amounts, to be expended in the way provided, against obligations that in the case of every nation followed the same formula. The obligations would run for say fifteen years, bear — per cent. interest, provide for amortization of one-fifteenth each year, and be repayable, interest and amortization in the currencies of the various lending countries in the proportion in which

the obligation was at the time of each interest payment actually held by the nationals of such country.

Each borrowing nation should pledge a first lien upon its customs revenue to meet the interest and amortization service of that portion of the international loan allocated to that particular nation.

The International Loan Commission would issue for sale to the investors in each loaning nation its obligations secured by the obligations of the several borrowing nations. The interest charge on the obligation of the International Loan Commission would be the first charge against all the income received by the Loan Commission from all of the borrowing nations. If one or more of the borrowing nations defaulted in the first years of the contract, the International Loan Commission could devote such part of the amortization funds received from the other nations as might be necessary to the payment of interest on the International Loan Commission's total outstanding bonds and any such depletion of amortization funds could subsequently be made good when the defaulting nation made good its overdue obligations. The result of this would be that even in the event a nation defaulted in its obligations to the International Loan Commission, the full interest payments would be kept up on the obligations issued by the International Loan Commission, and time would

thus be given to any dafaulting nation to subsequently make up this default. If it were unable to do that before the final maturity of the loan, the loss would then make itself manifest in a deficit in the ultimate final payment of the principal of the International Loan Commission's obligations.

Each borrowing nation would undertake to lay sufficient import duties to provide amply for its obligations to the International Loan Commission. The obligations would include in addition to the interest and amortization of the original loan, the proper expense of the flotation of the International Loan Commission's obligations, and the expense of the International Loan Commission up to the final discharge of its obligations.

Any borrowing nation finding itself in a position to liquidate its obligation to the International Loan Commission in advance of the maturities of those obligations, and desiring to do so, would be permitted to liquidate those obligations at, say 102½.

The point may at once be raised that some at least of the borrowing nations would raise objection to pledging a first lien on their customs receipts. If such a proposal were made individually to separate nations, that objection might be insurmountable. The difficulties of the situation are so great, however,

that nothing short of a prior lien obligation would offer sufficient security to warrant bankers going to the investment public with an obligation for the industrial rehabilitation of Europe; and if all of the borrowing nations were asked to follow the same formula, the political objections would be far less serious than if an attempt were made to induce governments one at a time to thus grant a priority lien. Any government that found itself in a position to finance on more favorable terms subsequently could relieve itself of this pledge of revenue by redeeming its obligations to the International Loan Commission at a moderate premium.

The plan which is in the mind of many of the financial officials of the borrowing governments, to rediscount their expected indemnity claims against the Central Powers, is one which will find little favor among investors. The investors of no lending nation will be disposed to put themselves in a position of collecting this indemnity from either an impotent or unwilling power. If the indemnity is paid, the obligation which it is proposed to secure by putting up the indemnity as collateral would be paid. If it is not paid, the task of collecting it is not one that any thoughtful investor will voluntarily become involved in.

Nothing in the foregoing plan, however, would pre-

vent a nation from rediscounting the indemnity obligations which it might secure if it desired to do so and could find a lender. Nor would the granting of individual commercial credits be in any way curtailed. Individual commercial credits will eventually perform a most important function, but until the preliminary work of getting industry started in all the countries has been undertaken, there is a lack of security in all individual commercial loans, without regard to the wealth of the borrower, because his total wealth may be subject to depreciation or extinction by revolution. That is why I believe the first step should be the comprehensive one of furnishing the minimum necessary to restart industry in all European nations concurrently.

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